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SOVIET TRADE AND DISTRIBUTION  
1917-1937:  
THE GROWTH OF PLANNED CONSUMPTION.

P r e s e n t e d

b y

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PREFACE

For more than twenty years now the Soviet Union has surprised the world by the rapidity of its social changes. It would appear, therefore, that only the dynamic approach to Soviet Russia's economic history can claim more than transient relevancy. The constancy of movement has, consequently, been stressed throughout this survey which attempts to depict the changing ways in which goods were being distributed and consumed within the country, against the background of the general economic evolution and its vicissitudes.

The choice of the subject has been prompted by the reflection that it is through trade and distribution that the economic process reaches its consummation in the act of social consumption, and that the most grandiose schemes of production are of no avail unless they are supplemented by an efficient system of transmitting "final" values to the consumer.

The first part of the investigation is introductory setting forth the state of Russian internal commerce before the October Revolution of 1917 (in order to indicate the nature of the heritage passed on to the Bolsheviki): it then goes on to a description of conditions under War Communism (1917-1921), the New Economic Policy (1921-1928 or so), and the First and Second Five-Year Plans (1928-1937). This forms the subject matter of Books I and II. In Book III the



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descriptive narrative is subjected to analytical scrutiny.

The main objects of the enquiry are: (1) to examine how the advance of economic planning in Russia has affected the sphere of consumption; (2) to describe the organisational framework of Soviet trade and distribution and their structural changes under the impact of transformations in production and under the influence of political and social considerations; (3) to assess, as far as possible, the results achieved by Soviet trade and distribution and to point to the system's novel features; and (4) to ascertain how the individual, the various social groups and society as a whole have been affected by the growth of planned consumption.

Much space has been devoted to the study of prices in all their aspects (inclusive of such allied topics as costing and credit), since it is thought that they constitute the focus of economic policy, an important instrument in directing economic activity, and an indication of efficiency and performance.

The treatment is predominantly descriptive, and when comment is called for, it strives to be objective, not necessarily in the sense of refusing to make up one's own mind, but of being aware of the various arguments involved in the issue.

With this in view, full use has been made of sources published both inside and outside Russia, so that conflicting accounts and interpretations could be contrasted, and a more correct appreciation of actual trends gained thereby.



1

I N T R O D U C T I O N

TRADE BEFORE THE OCTOBER REVOLUTION

2

## CHAPTER I

TRADE IN CZARIST RUSSIA

## THE GROWTH OF THE INTERNAL MARKET

The year 1861 marks an important stage in Russia in the development of an internal market in the modern sense.<sup>1</sup> In this year the serfs were liberated and almost at the same time the construction of the Russian railway system was begun. While locomotion transport opened up new economic regions and linked the existing ones with each other, the emancipated peasants hurried to the bazaars in order to dispose of their produce and thus to obtain the wherewithal for the payment of rent, that token of a nascent capitalism. The industrialisation of the country contributed in no small measure to the growth of the market; it set in about the 'nineties and was particularly intense between 1908 and 1913 which was also a period of good harvests.

The increased holding-power of the market called forth new industrial enterprises, commercial organisations and trading firms. The latter were predominantly small-scale,<sup>2</sup> especially those connected with the trade in grain which was and remained the chief form of commercial activity. It linked together tiny farms scattered over the country and petty traders to whom the peasants sold their produce in small lots.

<sup>1</sup> By this we mean the widening of the area within which the forces of demand and supply tend to establish uniform prices. - For details of internal trade and prices in the earlier periods of Russian history cf., e.g., P. Miliukov, Descriptions of the History of Russian Culture, Vol. I, St. Petersburg, 1904, (R), pp. 105 et seq.  
<sup>2</sup> An analysis of trade-licenses taken out in the course of 1912 reveals ~~that~~ the following structure of Russian trade at that time: wholesale trade 0.8%, retail trade 14.6%, small shop trade 51.6%, stalls 30.5%, hawkers 2.5%. (Cf. V.M. Ustinov, Evolution of Internal Trade in Russia 1913-1924, Moscow 1925, (R), p. 4.)

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Immediately before the War, however, a certain tendency towards the formation of bigger trading units, mainly export firms dealing in cereals, could be noticed. Even railway companies engaged in the grain trade operations and the banks contravened the law by openly carrying on trade in grain and sugar on <sup>at their own</sup> their own account and risk. Lastly, trusts and syndicates of the American type, largely financed by foreign capital, began to develop.

(1914-1918)

In the years preceding the War <sup>the</sup> the internal consumption of such important and representative commodities as sugar and butter, iron and coal increased considerably. This, too, bore witness to the continuous growth of Russia's internal market.

/ The average increase in the consumption of sugar in the last five years before the War amounted to 4.38 million poods, in 1913 it was even as much as 6.98 million poods. Figures of butter consumption are available for the years 1906-1912. The average yearly increase amounted to 3.1 million poods; in 1911 it was 3.3 million poods and in 1912 4 million poods. In spite of increased output, coal had to be imported. Shortage of coal was so acute that in the middle of 1913 certain classes of consumers were allowed to receive it free of duty. (Cf. Ustinov, op.cit., pp.7 and 8). There was also "iron-hunger" throughout the countryside, i.e., an intense demand for agricultural machinery, setting in soon after the Stolypin Reforms. But the supply of these goods was cut short by a strong policy of industrial protectionism. (Cf. Friedrich Pollock, Die planwirtschaftlichen Versuche in der Sowjetunion 1917-1927, Leipzig 1929, p.11).

Trade statistics before the War were, as a rule, very inadequate, foreign trade statistics being the sole exception. Statistical information on the volume of internal trade at that time was thus very scant and while it has been somewhat enlarged by subsequent investigations, it is still based on indirect data only. The business tax, e.g., can be considered as a fairly accurate budgetary reflection of the state of industry and trade. The yield of this tax came to 150,118 thousand roubles in 1913, 13.5 per cent more than in the preceding year. Another sign of the growing volume of trade was the rising of economic organisations. 372 joint stock companies were launched in 1913; handicraft and small-scale industry developed turning out about 1000 million roubles' worth of goods in 1913. According to information of the Ministry for Trade and Industry published in 1912 3,994 commercial partnerships and 161 joint stock trading companies were in existence at that time. Altogether the registered capital which was working in retail trade amounted to some 340 million roubles. This figure excludes trading firms under individual ownership whose capital was not subject to registration. The total number of commercial enterprises may be obtained from the number of licences taken out. In 1912 it amounted to 1,224,898. An additional light on the volume of internal trade is thrown by railway returns. The State-owned railway system alone carried about



11,571 million poods of merchandise in 1913.<sup>1</sup> According to fairly recent calculations by the well-known Russian statistician Professor Strumilin<sup>2</sup> trade turnover increased by 281 per cent from 1885 to 1913 while population had grown only by 57 per cent. Commerce amounted to roughly 8 per cent of the National Income both in 1900 and in 1913. Its absolute increase in these 13 years came to 74.6 per cent.<sup>3</sup>

Although undue faith should not be placed in these figures (which are, at best, but illustrative approximations), they nevertheless convey a certain amount of information on the extent of internal trade in pre-war Russia. They are hardly sufficient, however, to enable one to formulate any dynamic laws appertaining to it, except for the general statement that to judge by Strumilin's figures, (1) harvest fluctuations had, contrary to the common belief, but little influence on the volume of trade; and that (2) the capitalist crisis in the 'nineties and the Russo-Japanese War as well as the Revolution of 1905 perceptibly retarded its growth.

<sup>1</sup> Figures from Ustinov, op.cit. - "...the Russian railway net, which at first clearly exceeded in its traffic capacity the needs of the trade, was fast outrun by the growth of the latter and began to lag behind the requirements of the country. From 1873 onwards, up to the last quinquennium before the Great War, the goods traffic...was growing at the square of the growth of the net itself. ... In the course of the last quinquennium before the War, the density of traffic began to overtake the growth of the net by enormous strides, having reached the huge figure of 1.2 million ton-miles to one mile of line. This is a figure never attained on any railway net throughout the whole world." (A.A.Bublikoff, The Past of the Russian Railway Economy, the Russian Economist, 1921-22, pp. 2491-2). <sup>2</sup> Prof. S.G. Strumilin, Our Pre-War Trade Turnover, in Planovoie Khoziastvo /Planned Economy/, 1925, No.1. Cf. also the Statistical Appendix. <sup>3</sup> S.S.Masloff, Russia after four Years of Revolution, London 1923, p.30. These statistics expressly disregard the rise in prices.

It should be noted that trade tended to gravitate towards the populated and industrialised parts of European Russia, a fact which underlines the backwardness of the various nationalities incorporated in the Czarist Empire and their stepmotherly treatment by the Authorities.

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("Trade facilities were very undeveloped and unequally distributed throughout the country. In Tsarist Russia about 94 % of the commercio-industrial turnover of the country, and over 68 % of the total number of commercial and industrial undertakings were concentrated in populated districts which covered only 24.8 % of the total population. A total of 6.2 % of the commercio-industrial turnover of the country was available for all the rest of European Russia, not to mention the Asiatic part of the Russian Empire. The supply of goods to the distant regions of European Russia amounted approximately to two copecks a day per capita. The supply of goods to the Asiatic part of Russia was even more insignificant." (Socialist Planned Economy in the U.S.S.R., London, 1932, pp. 61-2).

## TRADE ORGANS

The trade of the country was predominantly in private hands. Almost the only trading activity carried on by the State was the monopoly in the sale of intoxicating liquors, re-introduced in 1894.

Hubbard<sup>1</sup> describes the organisation of trade activity in Old Russia thus: "In pre-War Russia retailing enterprises, from the big city shops to the small country shopkeeper, bought their supplies partly from the manufacturer direct and partly from the wholesale merchants. The larger the retailer the more likely he was to buy direct from the manufacturer, because he was in a position to take large parcels of uniform goods and get better terms than from the merchant who had to make his middleman's profit. This system resulted in manufacturers establishing their own wholesale warehouses all over the country alongside the establishments of the wholesale merchants. And since it was the custom for traders in the same sort of goods to congregate in the same quarter, it was quite possible for a retailer to buy identical goods from the manufacturer's warehouse or from a merchant's warehouse next door." This seems to us to be a rather idealised account of actual conditions. It should not be imagined that commercial activity in Old Russia as a whole proceeded neatly on the basis of a ramified parallel network of wholesale centres. It

<sup>1</sup>L.E. Hubbard, *Soviet Trade and Distribution*, London 1938, pp.79-80.

is a well-known fact that pre-war trade in Russia was in the close grip of the middlemen because of the low cultural level and apathy of the retail merchant - the typical pre-war retail shop was a rather primitive establishment with a small turnover and poor assortment - and also owing to the indescribably bad road conditions which rendered the middleman's functions well-nigh indispensable.

The peasant bazaars were perhaps the most widespread form and source of supply to the townsfolk of agricultural produce, especially of such perishable goods as butter and milk, fruit and vegetables, and poultry. Because of the backward state of communications the radius of such supplies was fairly restricted and in course of time intensely cultivated agricultural belts grew round the more important ~~urban~~ <sup>URBAN</sup> ~~centres~~ <sup>SETTLEMENTS</sup> like Moscow, St. Petersburg etc.!

Another very common commercial (predominantly wholesale) organisation in pre-war days was the fair. Fair-trade in Russia dates back as far as the ninth century. Its rapid growth was caused by the development of manufacturing and handicraft industries in the nineteenth century. It was then that the fair of ~~Nizhni~~ Novgorod attained great fame and enhanced its international reputation. In 1910 its turnover amounted to some 200 million roubles and exceeded the volume of transactions of the other major fairs taken

/Cf. Hubbard, op.cit., p.139. It is interesting to note that "despite the comparatively poor soil and unfavourable climate, the average money yield per acre of land in the Northern Provinces was higher than in the rich black-soil regions in the Centre and South." (Ibid.)

together.<sup>1</sup> The intense growth of fair-trade lasted until the 'sixties, then its share in the country's total commercial turnover began to subside. The number of smallish fairs remained on the upgrade, however, until the outbreak of the War.<sup>2</sup> Such peculiarities as inadequate transportation, a defective trade network and the seasonal nature of the rural economy favoured this development. The overwhelming number of fairs was of an agricultural type, operating from one to three days, often on holidays, so as to enable people to trade and higggle at their leisure. There was a certain amount of local specialisation, but the number of properly specialised fairs (timber, furs, wool, cattle, etc.) was rather insignificant. The importance of commodity exchanges was also negligible.<sup>3</sup> The War put a stop to the development of Russian fair-trade.

Our brief enumeration of the various channels through which Old Russia's turnover of goods moved, would be incomplete without ~~a brief~~ mention of the co-operative movement.

The first attempts, since the 'sixties, to "implant co-operative institutions in a countryside still living under conditions of isolated semi-natural economy"<sup>4</sup> proved abortive. Only towards the close of the

<sup>1</sup>Great Soviet Encyclopaedia (R), Vol LXV, p.763.

<sup>2</sup>In 1904 there were about 18,500 of them with a turnover of 1,098 million roubles. In 1914 there were 29,800. (Cf. Great Soviet Encyclopaedia, loc.cit.)

<sup>3</sup>Cf. Great Soviet Encyclopaedia, Vol. VI, p.375.

<sup>4</sup>George Pavlovsky, Economic Journal 1930, p.135

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century "the growing commercialisation of peasant farming, which accompanied the industrial expansion of Russia, provided a more favourable environment for the growth of rural co-operation."

Of the producers' societies the artels of handicraft workers were, according to Paul, "of signal importance in pre-war Russia and developed to quite an advanced state. The most advanced of the pre-war artels was the Pavlovskaya Artel. ... (which) had its own warehouse in St. Petersburg."

In the countryside agricultural societies took the form of joint marketing and purchase, but the members retained their individual holdings. Paul mentions the case of the Siberian Creamery Association whose rise followed the building of the Trans-Siberian Railway and which "ended by controlling virtually the whole of the Siberian export trade in butter."

The first consumers' societies in Russia were established along English lines and "received encouragement from the liberal sections of the aristocracy and the intelligentsia of the period who saw in the Co-operative Movement an instrument which in Russian hands would enable their country to circumvent the capitalist developments through which Western European nations were passing." But despite all the support "from above" the workers proved as un-receptive as the peasantry to the first attempts of

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<sup>1</sup>Ibid.

<sup>2</sup>Leslie A. Paul, Co-operation in the U.S.S.R. A Study of the Consumers' Movement, London 1934, p.39

<sup>3</sup>Ibid., pp. 40 et seq.

<sup>4</sup>Ibid., p. 35.

co-operation. The proximate cause of the revival of the co-operative movement in the 'nineties was the famine of 1891 which practically compelled the town-workers to combine against a rapacious commercial class. According to Burrows / Russian consumers' co-operation in pre-revolutionary times was the strongest in the world. But its vitality was weakened by the fact that it was not outside the political and economic influence of landlords and factory owners. The capital of the Russian Co-operative Movement in 1914 amounted to £3 million, its turnover to £30 million and its membership roughly to over one million and a half. <sup>2</sup>

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/R. Burrows, *The Problems and Practice of Economic Planning*, London 1937, p. 212.

<sup>2</sup>Paul, *op.cit.*, p. 38.



## PRICE MOVEMENTS AND TRADE

The description of the state of Russian trade before the War would remain incomplete without a brief account of price movements and their influence on commercial activity. It is in the price-sphere that the condition of the different branches of the national economy, based on a "free" market, reveal themselves and latent anomalies and weaknesses are most easily discovered.

Absolute prices had been rising continuously since the 'sixties and there was a tendency for basic articles of mass-consumption to go up at an especially marked rate. Prices of these goods doubled during the period under observation and their ascent was particularly pronounced in the first decade of the new century, which registered a 25-30 per cent advance. In 1913 the price of all commodities taken together was 36.6 per cent higher than the average price of the 1890-1899 period.<sup>1</sup>

To a certain extent the upward trend was but a reflection of the rise of world prices. Besides it was natural enough that the industrialisation of the country should have been accompanied by a rise in prices. It is, however, difficult to ascertain how far the industrial price-boom was caused by the expansion of the home market and to what extent it can be ascribed to railway construction.<sup>2</sup>

<sup>1</sup> This group of commodities comprised cereals, animal products, oil products, textile materials, mineral products, chemicals and groceries. For detailed information and sources cf. P.B. Struve and others, Food Supply in Russia during the World War, Newhaven 1930; cf. also the statistical appendix.

<sup>2</sup> M. Pokrovsky, Brief History of Russia, London 1930, Vol. 2, p. 43.



Changes in relative prices for industrial products were, apart from being dependent on the varying degrees of protection, directly connected with monopolistic influences. Methods of monopolistic price-manipulation and speculative devices in which the banks participated prominently, were used in some industries such as coal, where the rise of prices was most conspicuous in consequence.

Prices of cereals which constituted the chief item of Russian exports and paid off the country's international indebtedness, had been rising continuously in spite of the relatively abundant harvests in the last five years before the War. This again was partly the direct result of rising world prices which enabled Russia, in the last pre-war quinquennium, to bring her exports of grain up to 650 million poods per annum on the average, and is partly to be explained by the increased consumption of grain within the country.<sup>1</sup>

The above general quantitative outline of the Russian price-structure, as it existed before the War, does not carry us very far, however. It must be supplemented by a brief qualitative analysis of the price-situation which lays bare the salient contradictions of Russian economy due to the peculiar inter-relations of industry and agriculture. The position of agricul-

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<sup>1</sup>The per capita consumption of bread by the Russian peasant was, however, far lower than that in any other civilised country. Cf. Pollock, op.cit., pp. 8 and 9; The Times Book of Russia, London 1916, pp. 161-62; A. Yugoff, Economic Trends in Soviet Russia, London 1930, table on p. 124 (showing total production of grain per head of population in various countries). But as Vyshnegradsky, the Minister of State, said: "Though hungry, we shall continue to export grain." (quoted by Yugoff, op.cit., p. 123).



ture, which represented the predominant economic activity, was precarious owing to the feudal system of land-tenure with acute landhunger (in spite of natural abundance), small uneconomic holdings, agrarian overpopulation and very limited purchasing power<sup>2</sup> as concomitants. Russian industry, on the other hand, was still in its infancy and afflicted with all the unhealthy traits of the hasty and rapacious capitalist colonisation of the Russian Empire by alien investors. Small in relation to the total population it was conducted on a large scale<sup>3</sup>, dependent on the supply of foreign capital and equipment, and artificially fostered by a policy of intense protectionism.<sup>4</sup> Altogether it was a costly and inefficient machine.

This being so, it is evident that however im-

<sup>1</sup>In 1912 147.2 million or 86 per cent of the total population of 171 million lived on the land. (Figures taken from Otto Hoetzsch, *Russland*, p. 16; quoted by Pollock, *op.cit.*, p. 8).

<sup>2</sup>This increased to some extent after the Stolypin Reforms. Compare n./on p. 4. Cf. also L. Lawton, *An Economic History of Soviet Russia*, London 1932, Vol. I, p. 64.

<sup>3</sup>The traditional organisational form of the heavy industries in Russia was the large-scale enterprise. Prof. J. Mayor in his *Russian Revolution*, London 1928 goes even so far as to say that "Russia was a pioneer in this field long before large-scale enterprises were prominent in Great Britain or in Western Europe." (p. 306).

<sup>4</sup>"Russian industries grew up behind a high tariff wall. In 1853, the percentage relation of customs duties to the value of goods imported was 33 per cent; under the influence of the tendency to free trade principles, it dropped to 13 per cent in 1870; the renewal of the protectionist policy brought it up to 28.7 per cent in 1890, and 32.5 per cent in 1900." (M.S. Miller, *The Economic Development of Russia*, London 1926, p. 50). - "Comparing the rates of import duty in Russia with those in other countries, it appears that custom duties are highest in Russia." (A. Raffalovich, *Russia: Its Trade and Commerce*, London 1918, p. 308).



pressive the absolute figures of the growth of internal trade may be, the industrialisation of the country was hampered both by the high cost of production and the narrowness of the domestic market. Industry thus "could not strike firm roots unless within the boundaries of Russia, among the peasantry - there should come into existence a numerically large section of effective buyers."<sup>1</sup>

These marked misproportions were reflected in an excessively high industrial price-level in relation to agricultural prices, high in the sense of being untenable on the supposition of free movement of resources and economic non-intervention on the part of the State.

The prices for the produce of Russian industry exceeded by far those obtaining in the world market.<sup>2</sup> In 1913 only 5.6 per cent of the total exports was in industrial wares. Owing to the dearth of internal purchasing power the bulk of the industrial produce, largely capital goods, was sold directly to the Government. The manufactured goods that were produced were absorbed by the cities and their underpaid workers and only a very small part was taken by the country-

<sup>1</sup> Yugoff, op.cit., p. 30.

<sup>2</sup> S.A. Molchanoff, What Factors influence Commodity Prices?, Moscow 1928, (R), p. 13, illustrates the disparity, before the War, between world and Russian prices for industrial goods by the following figures: taking the Russian industrial price-level as 100 in 1913, the respective price-levels of the four main industrial countries at the same time stood as follows: England (Britain): 64; Germany: 55; France: 66; U.S.A.: 59. A memorandum issued by the I.L.O. for departmental circulation (La Monnaie et le Système des Prix en U.R.S.S. /in typescript/) gives slightly different figures for Britain (62) and France (67). Considering the tender age of Russia's monetary economy we must beware, however, of paying undue attention to comparisons in terms of international monetary standards. (p.t.o.)



Owing to the relatively low yields of Russian agriculture the country's position in facing world competition was, in terms of comparative cost, extremely weak.<sup>2</sup> Besides, by reason of a totally inadequate organisation of export trade the foreign purchasers very often had the supplies of grain thrust upon them in poor

(continued from previous page): According to A. Raffalovich (op.cit., p. 109) the movements in prices of some manufactured articles and metals often changed within the country independently of quotations abroad. A good harvest had a greater influence on textile prices than a crisis on the world's cotton markets: an increase in Government orders was more important from the point of view of the metallurgical industry than a depression in the American or German metal trade.

/M.S. Miller (op.cit., p. 109) points out that owing to the prevalence of domestic or kустар industry the country was not to any great extent a market for the manufactured products of the towns and industry could not become assimilated into the general economic structure of the country. This view is confirmed by Pollock op.cit., p. 13.

<sup>2</sup>Cf. M.S. Miller, op.cit., p. 56 and statistics on p. 59 which demonstrate "Russia's difficulty in keeping up with countries in which more scientific methods were employed" and show "that although her export of grain increased greatly in amount, there was no corresponding rise in the price obtained from it. ... Russia's share as supplier of the world market also showed a tendency to diminish." These remarks do not match with the account of the eminent Bolshevik historian M.N. Pokrovsky (Brief History of Russia, op.cit., Vol. II, pp. 33-4) according to which the rise in income from the export of corn was greater than the increase in the quantity exported. But then Pokrovsky's statement is based on a comparison between 1900 and 1910, while M.S. Miller confronts the years 1909 and 1910. In any case the income of Russian agriculture from imports is, because of constant fluctuations of world grain prices, not always indicative of its competitive strength. It should also be plain that a comparison, in terms of purchasing power of gold, of the real costs involved in agricultural production in (say) the United States, a country with a full-fledged money economy, and Russia, where money was scarce and credit facilities thoroughly inadequate, hardly conveys very much. A contrast in real terms (yield per unit of sown area) is therefore to be preferred. Cf. Pollock, op.cit., p. 10, who makes such a comparison, for different crops, between Germany and European Russia.



condition, in quantities they were unwilling to accept and at times when they were least keen to buy. Export prices then fell in comparison with those existing in the domestic market. Being thus compelled to dispose of the "surplus" grain at the relatively low export prices, the grain merchants tried to make good their losses by charging correspondingly higher prices to the domestic consumers. This disparity between export and internal prices for grain can to a large extent be explained by the introduction of differential tariffs with reduced *pozd-verst* rates for the transport of grain to the ports. The freight schedule was constructed in such a way as to favour internal and export movements of grain only within relatively short distances; it thus weakened the bargaining power of more remote areas, such as Siberia.

The internal grain market itself, the pulse in the blood circulation of the Russian economy, was characterised by an appreciable difference between speculative market prices and the local prices paid to the small peasant within the country. Such a development is indeed typical of a territory where means of transportation are thoroughly inadequate for the establishment of a unified market price over a large area. Railway construction was hardly instrumental in achieving a greater uniformity of agricultural prices and eradicating grain speculation. Be-

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/ "As communication increased the process of decentralisation of markets went on, and the relatively big buyers having large trade capital at their disposal gave way to numerous small buyers with whom came a system of financial credit. Merchant and peasant strove to cheat one another, and frequently the peasant, because he was poor, got the worst of the bargain. Thus the grain market was chaotic." (L. Lawton, op.cit., Vol. I, p. 65).



cause of his extreme poverty the peasant had no other alternative but to sell the grain immediately after he had harvested it. On the other hand, the local grain dealer (khlebny skupshchik), often a mere agent of a big firm in the city, could afford to wait and availed himself extensively of his stronger bargaining power. The peasant, furthermore, was in most cases illiterate and without knowledge of the current export prices.<sup>1</sup>

This state of affairs was also responsible for undue fluctuations between the autumn and spring prices, whose "normal" co-efficient amounted to 20 per cent.<sup>2</sup> In autumn, when they were in desperate need of money so as to be able to meet their obligations such as quit-rent, taxes and other charges, the peasants went into the market and sold the greater part of their harvest at prices 25 to 30 per cent below the usual local level. Being left without adequate supplies of subsistence the same peasants had, with the advent of spring, to buy back their own grain, sometimes from the very persons to whom they had sold it in autumn<sup>3</sup>, after having had recourse to the money lender and ultimately being compelled to accept outside work.<sup>4</sup> In autumn prices were at their lowest because of the sudden swelling of supplies. Then exports of grain set in and the consumption of the cities added to the de-

<sup>1</sup> Cf. M.S. Miller, op.cit., pp. 57-8.

<sup>2</sup> Cf. Turetsky, Methods of Price Planning, Planovoie Khoziastvo, 1936, No. 3, p. 115.

<sup>3</sup> Cf. Mavor, An Economic History of Russia, London 1925, Vol. II, p. 289.

<sup>4</sup> "The proceeds from the sale of produce did not by any means cover the whole expenditure of the peasant population, whose total money income consisted up to 40 per cent or more of wage earnings and the proceeds of handicrafts, cottage industries, etc. According to P. Sokovnin in The Standards of Peasant Farming on Allotment Land (St. Petersburg, 1907)... 'the peasants' in-

pletion of the granaries. In January and February prices began to rise, reaching their culminating point in spring.

Another noticeable feature of the agricultural price-structure in Czarist Russia was the divergence of about 25 per cent between market prices of consuming regions ("The Hungry North") and the local prices of producing areas, a consequence of the disordered state of the market and the freight policy of the Government to which attention has already been drawn. The last point to be noted is the wide range of price variations over the different years to which both agricultural products and raw materials were subjected, a further proof of the instability of the rural economy.<sup>2</sup>

In view of the aforesaid it may be doubted whether the peasants benefited to any great extent by the absolute rise of agricultural prices before the War. If come from their allotment land, on the whole, falls one-half or three-quarters short of the amount absolutely necessary for their existence and the deficiency has to be made good, as far as possible, by outside earnings and by the lease of land from landowners!" (L. Hubbard, Soviet Trade and Distribution, op.cit., p. 300).

/According to half-yearly figures for the years 1906-1910. Cf. Turetsky, op.cit., p. 115. - The following table reproduced from An Outline of Political Economy by I. Lapidus and K. Ostrovityanov, London 1929, p.37, is based on material taken from the Digest of Commodity Prices for the chief Russian and foreign markets for 1913, published by the Ministry for Trade and Industry, Petrograd, 1914. It brings out clearly both seasonal fluctuations and regional differences of agricultural prices in pre-war Russia:

PRICES FOR RUSSIAN WHEAT IN 1913 IN MOSCOW AND NOVO-NIKOLAYEVSK (NOW NOVOSIBIRSK) IN KOPEKS PER POOD:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Sept.	Oct.
Moscow	122	123	129	125	123	123	-	111.4	104.9
Novo-Nik.	99	94.7	89.2	92	92.5	87	72.6	75.8	62.5
								Nov.	Dec.
Moscow								102	104.5
Novo-Nik.								63.3	61.8

<sup>2</sup> Cf. the statistical appendix.

one can give credence to Turetsky<sup>1</sup> the receipts of the small agricultural suppliers amounted to about half the market price and if one takes into account that about one-third of the money receipts of the small peasants was earmarked for the payment of rates and taxes, one arrives at the conclusion that the proportion of the market price for one pood of grain to the net monetary return derived from its sale by the original small supplier was 100:35.

A further factor which must be borne in mind is that the prices which the peasants actually had to pay for manufactured goods "on the spot" exceeded those which made up the official unweighted index of average wholesale commodity prices.<sup>2</sup>

The advance of money wages could not keep pace with the rising food prices. Money wages of Russian industrial workers rose by about 18 per cent from 1901 to 1910, whereas the price for food in the same period went up by 37.6 per cent<sup>3</sup> and that of goods of

<sup>1</sup> Turetsky, op.cit., p. 115. <sup>2</sup> Strangely enough Turetsky (cib.) speaks in this connection of average weighted prices, while in fact, the index expressed a simple average. On the whole the index-numbers of the Ministry of Commerce and Industry, which were started in the 'nineties, can be said to have been both primitive and distorted. They were based on the wholesale commodity prices during the decade 1890-1899. The number of observation points varied according to the different categories of commodities. (There were 7 groups of commodities comprising 66 items). The index was constructed once a year. First the arithmetical mean of the single index was calculated and then the arithmetical mean for the group-index was arrived at. These data are taken from the Great Soviet Encyclopaedia, Vol. XXVIII, p. 91 and a paper by G.A. Pavlovsky (Notes on Index Numbers of Prices), published in the Russian Economist, 1922, p. 1885. Pavlovsky says that the 7 groups of commodities represented only 60 items, while M.M. Sokolov, Soviet Economic Trends, Moscow 1931, (R), points out that the index was based on prices ruling in the years 1840-1899.

<sup>3</sup> Manuilov's calculations. Quoted by Pollock, op.cit., p. 16.



prime necessity ( a "basket" containing 14 articles)  
increased by more than 47 per cent.!

Although Russia was selling wheat on the international market, white bread of the best quality cost in London  $4\frac{1}{2}$  to 5 kopeks, in Paris about 6 kopeks, in Petersburg  $6\frac{1}{2}$  kopeks and in Moscow  $7\frac{1}{2}$  kopeks. This is yet another illustration of the existing anomalies of the Czarist price-structure and also points to the probability that the retail margin in Old Russia was appreciably higher than in the Western World.

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/ Turetsky, op.cit., p. 114.

CHAPTER II  
EFFECTS OF THE WAR

## THE DECLINE OF TRADE

The protracted war shook the economic life of Russia <sup>To</sup> ~~in~~ its foundations. Very soon commercial activity became paralysed and ultimately was laid in flat ruin. The trade of a country is, generally speaking, the most sensitive of all the economic links. Bearing in mind the particularly unstable character of Russian trade before the War, it is not difficult to see that it succumbed to the ravages of the military conflict without much resistance.

Economic life declined. The withdrawal of at least one-third of the pre-war labour force and the requisition of horses hit Russian agriculture very badly. Big farms had to be closed down or let on lease to the small and less efficient peasants. Contraction of the sown area was the obvious consequence. Industry worked almost exclusively for the Government and the exorbitant prices at which it offered a small proportion of its goods to the countryside made the peasants even more reluctant to dispose of their produce.

Already in 1914 a dearth of wares circulating in the market could be noticed. The army, counting about 15 million people, diverted an enormous share of the country's productive efforts. Although exports of grain in 1915 amounted only to some 18 million poods and ceased almost completely in 1917, all hopes of

/Cf. Yugoff, op.cit., p. 34; and B. Brutzkus, Agrar-entwicklung und Agrarrevolution in Russland, p. 139 et seq., Berlin 1925.

2Pollock, op.cit., p. 20.

a sufficient supply of bread during the war-years were bitterly disappointed. Grain collections showed lower yields<sup>1</sup>, not only because of the contraction in the sown area, but also on account of increased consumption by the countryside. The peasants were encouraged to eat more bread because of the savings forced upon them by the Prohibition (introduced in November 1914) and owing to a certain degree of relaxation in the methods of tax collection. The situation became even more aggravated by the comparatively poor harvests during the war-years.

The quantity of grain which was usually earmarked for the needs of the internal market was approximately halved by 1915.<sup>2</sup> This, together with a considerable drop in the supply of consumers' goods, had the most adverse effects on the state of trade.<sup>3</sup> The disorganisation of the transport system (especially after the Army's retreat in 1917 and its almost complete breakdown) was another potent contribution to the atrophy of Russia's internal commerce. Such goods as formed the object of trade in those days, were very unevenly distributed and deep-

<sup>1</sup>Figures from Ustinov, op.cit., pp. 10-11. Taking gross grain collections at 100 in 1909-13 we obtain the following declining curve: 1914 - 98.6; 1915 - 90.4; 1916 - 72.7; 1917 - 71.8; 1918 - 71.7. (Ibid., p. 11).

<sup>2</sup>Diminution in the quantity of grain reserved for the market: 1909-13 - 1,100,331 thousand poods (average). 1914 - 802,789 th.p.; 1915 - 542,099 th.p. (Ustinov, op.cit., p. 12).

<sup>3</sup>M. Bartenev, Senior Factory Inspector for the Province of Moscow, wrote in a report: "Immediately after the beginning of hostilities, there was a groundless panic among the manufacturers. A wholesale curtailment of production<sup>was</sup> started. ... As a consequence, production shrank by 25, and even as much as 50 per cent, in nearly every class of manufacture." (Quoted in Food Supply in Russia during the World War, pp. 246-47).

ened still more the gulf between producing and consuming regions. This abnormal disruption of producing and consuming markets during the War caused "the effective demand to break away from ordinary consumption demand (and increase) and the effective supply to break away from the potential supply (and diminish)."

Timely delivery of commodities under such conditions presented problems bristling with manifold complications. The grain growing regions which could not help selling some of their "surpluses" had especially great difficulties in marketing them owing to the failure of the transport system. Flour mills and sugar refineries were particularly badly hit. All kinds of devices were adopted to facilitate the movement of goods; bribes to transport officials were more fashionable than ever and if that proved to be of no avail, resort was had to carriage by road.

Traders' morals deteriorated in sympathy with the general economic decline. Speculative purchases, stock-jobbing and wilful detention of goods under conditions of an actual goods'-famine created artificial shortages and yielded both illegitimate and excessive profits. Stocks of comparatively abundant goods were kept "frozen" since they could not be exchanged against a suitable equivalent. Confidence and credit became undermined. The banks invested all their spare cash in buying up sugar, hides, meat, butter, cloth etc., in different parts of the country and excelled, even more than before the War, in illicit speculative operations. In all, it was a sad picture of economic decline, organisational collapse and moral decay.

/ Food Supply in Russia etc., op.cit., p. 384.

This economic disorganisation and the impact of War Finance had their inevitable and obvious repercussions on prices. First, because of the marked contraction in the exports of grain, cereals seemed to show a certain downward trend but, owing to the changes in agricultural production wrought by the War, the fall was very soon arrested and agricultural prices began to rise. This rise rapidly spread to other groups of commodities and, before long, became universal.<sup>1</sup>

The main economic reasons underlying these trends have already been touched upon in brief. But apart from changes in production and supply the main external contributory force was the continuous inflationary money issues and the consequent fall in the purchasing power of the rouble.<sup>2</sup> Depreciation of the monetary standard soon became cumulative and the speculative demand for goods, which were considered to be the safest means of investment, undermined still further the stability of the currency.<sup>3</sup>

<sup>1</sup>Cf. the statistical appendix.

<sup>2</sup>"The depreciation of the purchasing power of the ruble which set in during the World War progressed at a relatively moderate rate at first. The pressure of an ever increasing number of notes in circulation, however, compelled the purchasing power of the ruble to beat a more hasty retreat. By the time that the Provisional Government had been set up, the ruble's purchasing power was less than one-third of what it had been in 1913. More than two-thirds of it had been sacrificed during the Czarist regime on the altar of the war." (Arthur Z. Arnold, Bank, Credit, and Money in Soviet Russia, N.Y. 1937, p. 87. - Cf. also Great Soviet Encyclopaedia, Vol XII, p. 364).

<sup>3</sup>Still the Government succeeded in creating and maintaining the illusion of the rouble's stability, so much so that a certain amount of hoarding was taking place among the rural population during the War-years. It was not until the outbreak of the February Revolution that the country population became acutely aware of inflation. "As the peasants continued for a long time, in spite of a serious shortage of manufactured goods, to accept money in exchange for their products,

The rise of prices was extremely erratic and uneven in different markets and as regards the various classes of goods. Local conditions (such as delays in transport etc.) and the degree of speculative influence on supply were the main determining factors. Monopolistic groups (metal, coal) took increased advantage of their unique position, thus adding to the general upward movement of prices. Already at the close of 1915 transport difficulties made prices for grain in consuming regions exceed those obtaining in producing districts by 70-75 per cent. instead of the "normal" 25 per cent., and spring prices were 80-90 per cent. higher than autumn prices as compared with the usual 20 per cent. /

The evolution of prices presented a rather faithful picture of a dislocated War-economy and a demoralised trade. Its inflationary aspects made matters worse. Before very long the position became intolerable and public opinion began to clamour for Government intervention, in order to arrest the rise in the cost of living.

(continued from previous page): we are justified <sup>in</sup> ~~for~~ the belief that the advance in food prices, particularly those of cereals, must have failed to keep pace with the advance of prices of manufactured goods, at least until the early part of 1917." (Food Supply in Russia etc., op.cit., pp. 423-424).

/Turetsky, op.cit., p. 115.



The attempts of the Government to regulate prices were rendered difficult, first of all, by the lack of legal provisions tested by practical experience. All the measures had, therefore, to be hastily improvised to meet cases of emergency, such as serious deficiencies connected with the supply of the Army and looting of provision~~s~~-stores and shops in the cities. As early as July 31, 1914 the Minister of the Interior, N.A. Maklakov, recommended the provincial governors "to see to it that special orders be issued in the usual manner regulating the prices of articles of prime necessity and to use their legitimate powers with a view to combat~~ing~~ speculation and profiteering." Somewhat later the new Minister of the Interior, A.N. Khvostov, tight~~en~~ed up market control by means of direct police supervision. Thus, in February 1915 a raid on the "profiteers" of the Moscow Stock Exchange was carried out and was followed by similar measures in provincial cities.

The formation of various regulative organisations soon resulted in administrative chaos which the Government tried to stem by creating sundry co-ordinating bodies, such as the Committee for Food Supply (May 1915) and the Special Council for Food Supply (August 1915). This effort of administrative simplification failed, however, because the regulative organisations that had been set up in the first place retained all their powers.

The evolution of price-control during the World War is not without interest, Its first stage was the



local fixing of prices by provincial governors starting in 1914 on the basis of the ordinance of July 31 of that year. By the beginning of 1915 as many as 45 provinces had introduced some degree of local price-fixing. Usually price-regulation affected retail trade only, but in some cases wholesale trade came into its orbit as well. On the whole it may be said that local price-control proceeded in a most haphazard, topsy-turvy manner. The provincial governors, invested with extreme powers of intervention, whose scope was rather vague and whose legal basis was extremely questionable, used them, each according to his particular whim. Some of them fixed prices of different articles, while others simply prohibited "undue" price-increases. These measures and the bases of price-fixation itself not only lacked uniformity but often contradicted each other; they only added to the market's degradation and "made confusion worse confounded".<sup>1</sup> Furthermore, owing to the continuous rise in market-prices, fixed prices soon became totally divorced from economic reality and subject to large-scale evasion either by way of illicit price-additions, agreed upon by sellers and purchasers, or complete cessation of trade in regulated articles. Since control of shops proved of no avail, exportation of articles with fixed prices to other districts was forbidden, a measure which proved to be very harmful to the national economy as a

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<sup>1</sup> "As regards their areas of operation, regulated prices sometimes applied only to cities, at other times to entire districts. ... these prices sometimes covered only articles of prime necessity, such as bread and meat, or bread alone, at other times they applied to an enormous list of commodities, including even paper, ink and newspapers. In some places only the retail prices were regulated, in others, both retail and wholesale. In the manner of their elaboration, the regulated prices were sometimes intended to be based merely upon

The major weakness of local price-control lay in the fact that, since it was, in the main, restricted to retail trade (the last stage, that is, of price-formation), it was powerless to influence in any way those factors which were actually responsible for the rise in prices. In cases where it covered wholesale trade as well it only made matters worse, for it was applied locally and was devoid of any measure of co-ordination, while the chain of wholesale trade operations extended over, and cut across, several regions of the country.

In June 1915 all regulative measures were abolished and freedom of trade was re-established. The failure of local price-control was thus officially recognised. Military difficulties, however, which became acute in autumn of that year, forced the Authorities again on to the road of price-control. In October fixed prices were introduced for most cereals and cereal products. Price-fixing became henceforward the task of the Special Council, and its subsidiary local committees which had to ascertain the volume of food supplies in different regions and to supervise and enforce food collections at fixed prices on behalf of the Government. In November 1915 the Special Council was given the power to fix maximum (regulated) prices for the commercial sale of foodstuffs and fodder throughout the empire. The prices thus fixed remained

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(continued from previous page): the probable cost of the commodity to the dealer; at other times they made an attempt to ascertain the correlation between demand and supply in the given market and take it into account." (Food Supply etc., op.cit., p. 38).

/ Cf. the ukase dated February 17, 1915 which severed producing and consuming regions and undermined still further existing exchange-relations between districts.

in force until after the harvest of 1916 and were, on the whole, orientated towards the market-level; under certain conditions they could even be raised. The difference between fixed and maximum regulated prices resulted in a price-dualism which put a premium on speculation.

In the autumn of 1916 which brought additional economic difficulties in its wake, fixed prices were extended to all agricultural products including sugar, and covered every kind of transaction concerning their sale. At the same time fixed prices for agricultural products were introduced in consuming regions; they were based on the prices obtaining in producing regions with the addition of 5 per cent. and transport costs. But they were evaded and market prices continued to rise quite happily. Altogether this heterogeneous price-structure had the most detrimental effects upon trade.

In 1916 many respectable and large commercial firms began to close down. Besides the State resorted in an increasing measure to direct food collections, while the volume of authorised Government purchases through middlemen was reduced. Only the consumers' co-operative movement seemed to make headway fighting valiantly against the adverse forces which beset trading activity. The Government availed itself fully of its

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/From the moment of the extension of fixed prices to all transactions, the significance of fixed and regulated prices was entirely changed. "...the fixed price...became a payment made to the producer of an article which was recognised as the property of the State and excluded entirely from commercial transactions, and not the payment for a relatively free purchase stimulated by fear of requisition in case of refusal to sell. ... there was no longer a regulated price which was obligatory in business transactions."

services and discovered the great usefulness of its organisation for the ~~d~~istribution of foodstuffs to the population. The result of this was what Paul describes as the "unhealthy boom" of the co-operatives.<sup>1</sup> Because of the close relations of the consumers' societies with producers' co-operatives, retail prices in co-operative shops were often lower than in private establishments. The population joined the movement in great numbers,<sup>2</sup> but despite the great services rendered by the co-operatives to the State, the Czarist Government feared their democratic potentialities, gave preference to private traders in the handing out of their orders and, generally speaking, was rather hostile towards the co-operative officials.<sup>3</sup> The co-operatives tried to set up in 1915 joint co-operative committees with a view to fighting the rise in prices, but these attempts were stopped by the Authorities.

The methods of regulating trade were, however, not confined to administrative tampering with prices alone. Although direct price-fixation remained the more important form of Government supervision, the sale by the State of government and municipal stocks ("goods-

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(continued from previous page):...Fixed and regulated prices finally combined, as two different phases of the same single system of supply, to form the purchase and sale prices, respectively, of commodities monopolized by the State." (Food Supply etc., op.cit., pp.59-61).  
/Op.cit., p. 51 et seq.

<sup>1</sup>Some indication of the growth of the Co-operative Movement is given by the progress of the Moscow Union, which was equivalent to over a fifty per cent increase on the previous total. ...Membership of the whole of the movement was roughly 1,500,000 in 1914 and J.V. Bubnoff estimated that this had increased to 13 million households by the beginning of 1917, an exaggeration probably, but even a twenty-five per cent error in the estimate still leaves a growth of tremendous proportion." (Ibid., p. 54).

<sup>3</sup>Ibid., pp. 52 et seq.

intervention") at artificially low prices was also applied on many an occasion as early as 1914. These operations did not, however, attain a scale large enough to make them important. In the later stages of the War direct price control was supplemented by rationing and ration cards were actually introduced in various districts. The State gradually tightened its grip over the market and the sphere of "free" commerce contracted in proportion.

The regulation of the market had its political aspects and its social consequences. In point of fact the economic policy of the Government was influenced by sundry political factions, but in decisive matters the administration did everything to avoid the estrangement of the big landowners, the backbone of the Czarist Empire. Attempts to fix prices ~~prices~~ for the more important Army supplies, such as bread and fodder, became the bone of contention between bourgeois and land-owning cliques. In spite of energetic opposition on the part of the industrial capitalists and machinations of monopolistic groups, the landed gentry fought bitterly for a rise in fixed agricultural prices. When in November 1916 a compulsory levy of grain and fodder was ordained, the Czarist autocracy did not dare to encroach unduly upon the interests of the big land-owners. The levy requiring the suppliers to deliver grain and fodder at fixed prices was concerned not with the needs of the civilian population but with the provisions of the Army only. While the front was being supplied at fixed prices, civilians had to

For particulars cf. Food Supply etc., op.cit., pp. 164 et seq. According to Monograph No. 9 of the School of Slavonic and East European Studies in the University of London (The End of Rationing and the Standard of



purchase their foodstuffs in the "free" and "open" market at inflationary terms.

The cost of living jumped up by leaps and bounds. Notwithstanding its price-manipulation the Government did not, in the long run, succeed in preventing shortage of provisions in the cities which began to make itself felt most acutely in 1916 and thereafter. The momentum of inflation was most evident in manufactured articles. The rise in price of commodities of prime necessity soon outstripped that for semi-luxuries and luxuries by 100-120 per cent. This hit the urban working classes worst of all. In the first six months of the War prices for articles of prime necessity went up by 40 per cent., while wages, during the same period, rose only by 1 per cent.<sup>2</sup> The "natural" rise in price of goods of such importance as tea, tobacco, sugar, matches, caused by War Economics and inflationary War Finance was enhanced by the inequitable taxation policy taken over from pre-war days, and certain supplementary tariffs introduced during the War which fell most heavily upon necessities.

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<sup>1</sup>Comp. p. 27, note (3).

<sup>2</sup>Turetsky, op.cit. p. 116. This shows, incidentally, that the keeping down of wages does not prevent inflation under war conditions.

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(continued from previous page): Living in the Soviet Union) the main cause for the restrictive measures was not so much absolute shortage ~~but~~ transport difficulties. (P.2).  
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One of the main issues in the demonstrations which led to the February<sup>1</sup> Revolution was the organisation of food supplies. The chief object of the Provisional Government's economic policy was to supply the army and the civilian population with bread. The monopoly in grain was introduced under the law of March 25, 1917. At the same time as this law was promulgated the schedule of fixed prices for bread was revised and was extended to wholesale operations. In most cases the newly determined prices were fixed below the market-level, but market-relations were supposed to be taken as a guiding principle for these calculations.

As political and economic chaos grew and the printing press came to be used more freely than ever, market prices rose rapidly,<sup>2</sup> so much so that in autumn 1917 it became necessary to double the fixed prices. This measure, however, did not prevent them from becoming a mere administrative device, which private traders sought to evade wherever possible. Nevertheless, with the introduction of more stringent price-control, private trade became still further contracted.

<sup>1</sup>According to the Julian calendar the Revolution took place in February. This accounts for the Revolution being called sometimes the February and sometimes the March Revolution. The same applies to the October Revolution. We have retained the historic designations. All dates, however, are given in the new style.

<sup>2</sup>By autumn 1917 prices in 15 provinces of European Russia exceeded spring prices of 1914 by 18½ times in rye, and 14½ times in oats. The prices of chintz in Moscow in 1917 exceeded the price of 1914 by 16 times, sheet iron rose 6 times, wire 12 times. (Ustinov, op. cit., p. 14). During its short term of office (8 months) the Provisional Government issued 3,000 million paper roubles; this equalled the Czarist issues of the preceding War-years. (Cf. Pollock, op.cit., p.24).



The control had to be extended to industry to induce the countryside to part with its grain surpluses on the basis of an immediate exchange of commodities. In the absence of nationalisation of industrial production and under conditions of falling industrial output the scheme of a direct goods' exchange between town and country at officially fixed prices proved totally unworkable.

While trade was struggling with death, rationing was extended. In April 1917 the distribution of commodities by means of cards was decreed for all cities and settlements of an urban type, while maximum norms of consumption were fixed in respect of rural districts. In July the Authorities took over the supply to the population of goods like cloth, footwear, kerosene, soap, etc. The idea of State trade was put forward and tentatively discussed but it was never tackled seriously.

To summarise the review of Russian trade before the October Revolution the following features stand out:

The development and growth of the Russian home market in the modern sense dated back to the emancipation of the serfs and the construction of railways, in other words to the beginnings of full-fledged capitalism. The expansion of internal trade was accompanied by the formation of numerous industrial and commercial enterprises along capitalist lines as well as by an increase in the production of consumers' goods.

Although figures relating to the extent of internal trade prior to the Revolution are scant and unreliable, its <sup>though top-heavy</sup> considerable growth is beyond dispute. The trade-network was undeveloped and the rôle played by the middlemen was unduly great. The strength of the co-operative movement was remarkably great.

Side by side with an all-round price advance the price-structure of the Russian internal market appears to have been afflicted with certain anomalous features, as, e.g., marked disparities and variations in agricultural prices, both through space and through time, caused by the inter-relationships of industry and agriculture (the countryside being a poor market for industry owing to a lack of purchasing power and the prevalence of local kустar industry); government-intervention (protection, taxation); monopolistic forces, speculation and deficient organisation of the trade-network.

Russian trade, as a whole, was thus comparatively

unstable. The profits accruing from the price-boom were largely pocketed by industrial and agricultural speculators. Neither the peasantry nor the working class benefited by it to any extent.

Owing to general economic decline during the War Russian trade suffered a severe setback. Because of the reduction and dislocation of productive activity, as well as of general inflation, prices began to rise all-round. The advance, however, was uneven and the pre-war anomalies of the price-structure became accentuated.

Attempts on the part of the Government to regulate the market and organise distribution by means of direct and indirect price-control were much less successful than similar experiments in Western countries during the War, if only because of the lack of an adequate supply of officials with a thorough commercial training. They were, moreover, half-hearted and failed to arrest the rise in prices or bring order into the process of price-formation and prevent the shortage of foodstuffs. They were socially unjust and not free from political intrigues.

The position deteriorated during the months of the Provisional Government. Monopoly of grain was introduced and rationing extended. The Government was well on its way towards a monopoly of supply. Owing to the acute transport crisis, private wholesale trade became practically extinct, while the sphere of retail trade was considerably reduced.

In conclusion it might be suggested that the development of trade in Russia before the October Revolution reflects the infantile stage in the development

of normal commercial relations between town and country at that time. Because of Russia's vastness, of her semi-feudal methods of cultivation and forms of land tenure, her inadequate transport system and dependency on foreign capital, the great economic and political power of the big merchants and landowners as well as the illiteracy, subservience and cultural degradation of an impoverished peasantry and an underfed working class, the market mechanism could not function properly and fell far short of the ideal depicted in the text-books of market economics. These features were intensified by the turmoil of the War which shattered the frail framework of the body economic.

The study of trade, as the focus of economic activity, in the old empire helps us to perceive the forces which led to a complete collapse of the economic order under the impact of external aggression and internal social explosion, to grasp the nature of the economic heritage handed down to the Bolsheviks when, on November 7, 1917, they assumed political power and to appreciate some of the difficulties with which the Russian Communists were confronted in their attempts to evolve new forms of trade and distribution.

B O O K I

THE FIRST DECENNIUM:  
FROM UTOPIA TO COMMERCIAL REALISM

INTRODUCTION  
WAR COMMUNISM



The history of trade and distribution under what is generally described as War (or Militant) Communism can be adequately grasped only if it is presented against the social and political background of those momentous days. It is difficult to assess the true character of this phase in the economic development of the U.S.S.R. It may perhaps be most adequately described as having been both a Utopia and a species of War Economics, both an attempt to introduce integral communism into all spheres of life and an economic system forced upon the "Dictatorship of the Proletariat" by the needs of the Civil War then raging. The present-day Bolshevik historian tends to skip over the utopian aspect of War Communism and tries to make out that it was, almost exclusively, a system of emergency measures dictated by internal strife and external blockade. An analysis of the economic policy of the Russian Communists in the first eight months after their assumption of power (usually referred to as the period of Workers' Control) seems to substantiate this statement, for, at that time, the main efforts of the Revolutionary Government were directed not towards the immediate introduction of socialism but towards taking over the "commanding heights" in the national economy.<sup>1</sup> The comparatively moderate course pursued at this preliminary stage of War Communism is clearly

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<sup>1</sup> "...these measures were not intended for the immediate introduction of socialism." (The Economic Policy of the U.S.S.R., A Textbook for Soviet Party Schools etc., Moscow 1931 (R), p. 57).

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exemplified, as we shall see later, in legislation concerning trade and the co-operative movement.

With the unleashing of the Civil War the period of War Communism proper set in. Military victory became the dominant issue of the Revolution and utopian dreams of theorising intellectuals and enthusiastic workpeople seemed to recede, although local schemes of integral communism were being tried out all the time. But towards the end of War Communism, viz., in the second half of 1920 which brought the victory over Kolchak and Denikin, the conclusion of peace with Estonia and Latvia, and the lifting of the blockade by the Entente Powers, the utopian element revived. Despite the restoration of peace the Soviet Government went ahead, more vigorously than ever, with the organisation of the national economy by methods of War Communism. These consisted chiefly in the renewal of a frontal attack on the market, a further centralisation of the distributive apparatus together with the strict observance of the class-principle in distribution<sup>1</sup>, the intensification of Glavkism<sup>2</sup> and the tightening up of the Prodrazverstka.<sup>3</sup> So blind were the professional revolutionaries to economic realities, so amateurish and short-sighted in their economic analysis, and so childish was their fervent belief in the possibility of immediately inaugurating a full-blooded communist society that they tried, <sup>FOR INSTANCE</sup> ~~e.g.~~, to displace the monetary

<sup>1</sup>I.e., distribution according to the social status of the recipient.

<sup>2</sup>The term connotes the concentration of nationalised industry in, and direction by, chief industrial boards or departments attached to the V.S.N.Kh. (full title: Vysshyy Soviet Narodnogo Khoziastva), the Supreme Council of National Economy.

<sup>3</sup>I.e., the compulsory requisition of grain. The official Soviet translation is "surplus-appropriation system", a slightly apologetic term.

unit by a labour unit of account, the so-called "tred", devised in strict compliance with the Marxian theory of labour value; and this at a time of ~~pr~~<sup>f</sup>antastic inflation, illicit speculation and a complete break-down of productive activity which made any kind of cost calculation, let alone of labour cost, totally impossible.

The height of utopian folly was reached when the Authorities made the attempt to 'shunt' the countryside, which after the Revolution was a mass of tiny agricultural holdings without any proper equipment, over to an immediate realisation of communism. This policy was incorporated in the "Resolution concerning the socialist organisation of agriculture and methods of setting it up", published on February 14, 1919. The Resolution declared that all types of individual/cultivation were dying out. An artificial growth of collective farms set in. In 1918 there were only 912 of them and in 1920 13,607. The collectives were mostly composed of the poorest peasants and because of the lack of adequate technical pre-requisites they began to disintegrate almost immediately from the time of their inception; they were thoroughly unpopular with the masses of the peasantry. Still, when sowing activity declined as a result of the Civil War and Government compulsion, the Eighth Congress of Soviets found no better method of saving agriculture than that of passing, in December 1920, an equally utopian "Resolution concerning the means of strengthening and developing agriculture". It envisaged the compulsory sowing of fields within a general sowing plan and special sowing committees were charged with the supervi-

sion of the whole scheme - which, needless to say, could never be put into practice.

In point of fact, all these efforts of peaceful economic reconstruction along "War Communistic" lines (which had to be discontinued because of the commencement of hostilities with Poland) only increased economic chaos and demonstrated how utopian it was to expect to achieve communism at a moment's notice. "It became clear", said the realist Lenin, in his Political Report to the Tenth Congress of the Communist Party, "that this transition has to be much slower than we have expected. We need a much more lengthy period of preparation, ...-this is the lesson we have to learn." The abandonment of War Communism on March 21, 1921 dealt a severe blow at Bolshevik Utopianism (but did not kill it) and meant a victory for Bolshevik Realism.

These general remarks on War Communism may suffice as an introduction to the following analysis of trade and distribution during this period.



The general belief seems to be that as soon as the Communists assumed economic control they at once swept away all that remained of private trade after the long War-years of decline. This is not quite so and <sup>it</sup> shows that although avowed enemies of private commercial activity, the Bolsheviki did not think it advisable to oust at one stroke all the remnants of legal private trade.

Thus they did not, as one might reasonably have expected, introduce at once prohibition of all private trading. On the contrary, as Professor Ustinov points out in his survey, they issued, on November 11, 1917, a decree proclaiming a two months' moratorium with the aim of removing the difficulties with which trade had been confronted owing to the Revolution. Even as late as 1918 one can discover decrees indirectly favouring private trade. The decree concerning the reorganisation of the People's Commissariat of Supplies, the Narkomprod,<sup>2</sup> expressly stated that private dealings in articles of prime necessity were allowed, provided that they were properly controlled and carried out in accordance with the regulations laid down by provincial supply organs and the general rules of the Narkomprod itself. On August 18, 1918, all commercial and industrial firms were invited to register not later than by December 15 of that year. And despite the supposedly rigorous compliance with the State

<sup>1</sup>Ustinov, op.cit., p. 28.

<sup>2</sup>Its full title was Narodny Kommissariat Prodovalstia.

Monopoly in grain, which was claimed to be much superior to that practised by the Provisional Government and which by autumn 1918 was extended to include all basic foodstuffs, the Government still thought it advisable to utilise private initiative and called upon commercial firms dealing in grain and flour-mills to assist the Authorities in their grain-collections. The Narkomprod's circular of June 7, 1918, which recommended this policy to the executive organs in the provinces, even went so far as to make co-operation with private trade compulsory where an adequate State organisation of collections did not exist. As late as August 1918 the exchange of foodstuffs against manufactured articles could be effected through the channels of private trade.

As production declined and the question of feeding the Red Army and the workers became increasingly acute, organisation of foodsupply came more and more under the orbit of the State. A decree, dated November 21, 1918<sup>1</sup> charged the Narkomprod with the collection of products of mass consumption. At the same time the decree prescribed the procedure connected with the nationalisation of commercial firms. The decree proved to be the beginning of the end of legal private trading activity under War Communism. But while it abolished private wholesale trade completely - there was not much left of it anyway - retail trade, although severely restricted, continued to exist even

<sup>1</sup> For details of this important and comprehensive decree cf. The Collection of Decrees and Resolutions concerning the National Economy, Moscow 1920, (R), pp. 660-663. By an earlier decree, dated May 27, 1918 the Narkomprod was transformed into a general centre for catering and distribution.

after the publication of the decree, largely in the form of bazaar and fair-trade. The number of goods, however, which were allowed to form the object of private retail trade, was gradually being curtailed. In view of the socialisation of industry,<sup>1</sup> only a few articles of the kустar industry remained in legal private circulation. As regards foodstuffs, only the so-called "non-normed" articles,<sup>2</sup> i.e., those which were not included in the scheme of centralised supply, were allowed to be handled by private trade. But hostility among the Communists towards private commerce grew rapidly as the revolutionary momentum increased: even in its reduced form private trade was opposed by local executive organs and over-zealous workers who formed so-called "stopping detachments" alongside the railways. These detachments were supposed to requisition goods prohibited to private trade. Very often, however, it so happened that the "non-normed" commodities were seized as well. The Central Government deprecated these practices; since Government supplies were very inadequate and the possibility of acquiring additional food from private dealers was most valuable. An order issued by the Council of Labour and Defence of Workers and Peasants ("S.T.O.")<sup>3</sup> and a Government decree of January 24, 1919<sup>4</sup> reiterated the right of private commerce to trade in "non-normed" goods and prescribed penalties in case of unlawful seizures. The "Ekonomicheskaya Zhizn"<sup>5</sup> announced in May 1919 that, in

<sup>1</sup>The first comprehensive nationalisation order was published on June 28, 1918.

<sup>2</sup>According to Ustinov (op.cit., p. 37), at the end of 1918 the "non-normed" articles comprised the following goods: potatoes, milk, sour milk, cream cheese, fresh and dried fruit, fowls, game, mushrooms, honey and horse-meat. <sup>3</sup>Soviet Truda i Obrony. <sup>4</sup>The economic daily. <sup>5</sup>Cf. Ustinov, op.cit., p. 37.

view of the wide-spread anxiety among the population, the Authorities had to deny rumours about the prohibition of private trade in "non-normed" goods; and according to reports in the same paper, 78 licenses to trade in "non-normed" commodities, and 169 licenses for other classes of merchandise were issued in Moscow in August 1919.

Meanwhile, the movement in favour of the complete suppression of legal private trade in every form was constantly gaining strength. This movement was inspired by an increasing shortage of goods coupled with the realisation that private trade ~~was~~ becoming the centre of extensive speculative activity and illegal commercial operations of all sorts. Agitation assumed two forms, positive in the desire to foster complete State control of supplies, and negative in its demand for a ruthless suppression of speculation and <sup>of</sup> the illicit market.

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THE ORGANISATION OF SUPPLY AND  
DISTRIBUTION

An adequate supply of bread to the Red Army and the working class was a question of life and death for the Revolution. In the words of Lenin the fight against famine was not only a fight for bread alone; it was also a struggle for socialism.<sup>1</sup> As soon as Kerensky was overthrown, the State Monopoly in grain was confirmed by the new administration, rigorously put into practice and gradually extended to all foodstuffs. While, as we have seen, the market-mechanism remained to a certain extent intact during the period of Workers' Control, the State Monopoly in foodstuffs created the necessary conditions for the realisation by the State of a unified policy of supply.

Preparatory measures were concerned with the organisation of collective exchange of goods between town and country on a large scale. The decree of April 2, 1918, introduced commodity-barter on a voluntary basis. With the strengthening of the principles of War Communism these operations were made compulsory.<sup>2</sup> At that time the Government had already, by means of nationalisation of industrial production and wholesale trade, concentrated the bulk of manufactured produce in its hands. Special funds of manufactured goods were earmarked for purposes of commodity-exchange in accordance with the agricultural collection plans of the Government and allotted to the various stores (State, co-operative and sometimes private) on condition that 85 per cent. of their value had to be paid for in kind, i.e., in agricultural produce.

<sup>1</sup>Quoted in The Economic Policy of the U.S.S.R., op. cit., p. 51. <sup>2</sup>Decree of 10.8.1918, cf. Ustinov, op. cit. p. 32.





The scheme did not yield substantial results, largely because the ~~funds~~<sup>stocks</sup> of manufactured goods were by far inadequate and covered only some 20-25 per cent. of the quantity of bread to be collected.<sup>1</sup> Besides, the disorganisation of transport made it difficult to carry the manufactured goods to the villages. Both voluntary and compulsory exchange of goods proved unsuccessful and, on February 2, 1919, the Government was forced to decree the compulsory assessment of all grain-"surpluses" (Prodrasverstka).<sup>2</sup> Shortly afterwards the scope of the decree was extended to all agricultural raw-materials. This meant that the bulk of agricultural produce was withdrawn from circulation.

<sup>1</sup>According to Ustinov, (op.cit., p. 34) the population of Moscow obtained in 1918 only 54 per cent. of the food which had been promised by the supply organisations.

<sup>2</sup>The introduction of these measures was, of course, not solely due to the failure of the goods-barter operations, but was also dictated by purely military exigencies. Maurice H. Dobb, writing in the Encyclopædia Britannica (Vol. 19, p. 707) describes the economic results of the system of compulsory levies thus: "Previously the poor return (in industrial goods) which the peasant secured for his produce caused him to hold back grain from the market. Now this loophole was closed to him; but the lack of incentive merely transferred its effects a stage further back, causing the peasant to restrict his sowing of grain and to confine his efforts merely to cultivating and harvesting as much produce as he required for his own needs." According to Larin and Kritzmann, *Wirtschaftsleben und Wirtschaftlicher Aufbau in Sowjet-Russland 1917-1920*, Berlin 1921, p. 153, the harvest yield, expressed as a percentage of the last decade before the War, amounted to

1917	93%	1919	80%
1918	89%	1920	70%

The immediate results, however, as expressed in the quantity of grain collected, were rather encouraging. A publication of the Narkomprod (Four Years of Supply Organisation, (R), 1922) gives the following figures:

Amount of grain collected (in million pood):			
1917/18	47.5	1919/20	222.2
1918/19	108.0	1920/21	366.8

(Other sources give slightly different figures). While the major problem, viz., the feeding of the Red Army, was thus solved to some extent, the threat of famine in the cities remained.

The already greatly curtailed exchange-relations between the different branches of the nationalised industries were severed. The centralisation of industries in Glavki excluded monetary contacts among enterprises. All movements of material values were accomplished by means of orders and decrees from the Centre. The Glavki were not authorised to make any independent purchases. They handed over their production to the appropriate departments of the V.S.N.Kh. and, at the same time, sent in their demands for new supplies. The Glavproduct (chief produce) department of the Narkomprod was charged not only with the collection of essential consumers' goods, but undertook likewise to supply the urban population with necessities as well as with vital services (e.g., catering, transport, housing, amusements etc.) directly and free of charge.

The collected foodstuffs were allotted to the main classes of consumers, e.g., the Army, the factory workers, the urban population etc., and distributed as rations<sup>1</sup> by the military bodies, State shops and the co-operatives. Composition of the rations varied according to the social category of the recipient. which was considered as the final test of an equitable distribution.<sup>2</sup>

The structural evolution of the co-operative system in that period is rather noteworthy, for it reflects the logical completion of the whole complicated system

<sup>1</sup>Bread-rations were on a daily basis.

<sup>2</sup>Distribution was thus based on the so-called "class-principle". There were four main categories: (1) factory (manual) workers; (2) their families; (3) salaried officials and employees; (4) the "leisured" classes. The rations of the second and third categories were identical, shock-workers were supplied with additional rations; nursing mothers and children had special cards. For details on rationing cf. Larin and Kritzmann, op. cit., p.71 and Yugoff, op.cit., pp. 38-39.

of centralised supply. With the elimination of private trade it became the main legal channel of distribution. Although the co-operative movement has no place in a complete communist society, Lenin and his followers at first not only thought it desirable to preserve the co-operatives for the time being but actually adopted a conciliatory attitude towards what they described as its "bourgeois" personnel. In the negotiations leading up to the "compromise-decree" of April 11, 1918, the co-operative societies undertook to serve the whole of the population (and not only their members), in the districts under their purview. Not more than two co-operatives, one open to workers and the other to the general public, were to exist in any one district. From the communist point of view the compromise consisted, as was pointed out by Lenin, in the "bourgeois" officials retaining their positions and their voting powers, and in the Government shelving its demands for the introduction of membership without fees and the grouping of the entire population of a given area in one single co-operative. But with the strengthening of the revolutionary régime and the extension of State regimentation to all provinces of the economy, especially to that of agriculture, the Bolsheviks abandoned their conciliatory mood and in the decree of March 20, 1919, repeated their major demands on which they had so unwillingly compromised for purely political and tactical reasons. The structure of the co-operative movement was entirely changed. United consumers' communes, comprising all consumers' organisations (workers', general and rural), were set up, the population of each district being attached,

on a compulsory basis but free of charge, to one single co-operative. It was almost ~~the~~ year until this decree could be put fully into practice. The re-organisation was coupled with a thorough purge of the staff. The "bourgeois" elements were ousted and replaced by trusted Communists, whose fervent revolutionary zeal was considered as sufficient compensation for their lack of skill, experience and training. The Centrosoyuz (Central Union), the co-ordinating organisation, was turned into a department of the Narkomprod. At the beginning of 1921 the Russian co-operative movement had lost all its former relative independence and had become a mere link in the vast chain of economic integration devised by War Communism.'

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/For a detailed description cf., e.g., The Co-operative Movement in Soviet Russia. I.L.O. Studies And Reports. Series H, No. 3, Geneva 1925.

Under conditions of economic decline, the ravages of the War and the shortcomings, both quantitative and organisational, of State supply,<sup>1</sup> the population was driven to resort to the services of the underground market. Illegal private trading activity continued to exist during the whole period of War Communism and its transactions reached very considerable proportions.<sup>2</sup> Although the State did everything to curb the activities of the notorious "bagmen" who smuggled foodstuffs in sacks from the villages for sale in the towns, it had to tolerate them at the outset because they supplied the famine-stricken townspeople with the essentials of life.<sup>3</sup> It is characteristic of this toleration that for

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At the end of the period under review the Narkomprod had to look after 38 million people, a tremendous task considering the inefficient working of the distributive machinery. The population lacked all essentials. According to Kritzmann's calculations (quoted in Z.B. Atlas, Money and Credit under Capitalism and in the U.S.S.R., Moscow 1930, (R), p. 173) the proportion of rations in the budget of the average Russian worker amounted to 41 per cent. in 1918, 63 per cent. in 1919 and 75 per cent. in 1920.

In the beginning of War Communism the share of money wages was considerable enough to make it worth while for the worker to supplement his short ration by purchases in the illicit market. According to Zhirmunsky, The private commercial Capital, Moscow 1924 (R), 52.7 per cent. of the urban population's needs in producing regions, 62.3 per cent. in consuming regions as well as 65.2 per cent. of the requirements of the rural population in the consuming districts were supplied by the "black (illicit) market".<sup>3</sup> In an article entitled "Economics and Politics in the Epoch of the Dictatorship of the Proletariat", published in 1919, Lenin stated that roughly half of the bread in the cities was being supplied by the Narkomprod and the other half by the bagmen. Cf. also L. Lawton, op.cit., Vol. I, p. 117. For statistics of the relative influence of bagmen in consuming and producing regions cf. Zhirmunsky, op.cit., p. 2.



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a short period in 1918 the so-called "self-supply" by means of workers' purchase-expeditions to the villages and, later on, by private bread-sales to specific classes of the working population and limited in quantity were allowed by law.

Besides, the existence of the illegal market made it possible for the Bolshevik Government to squeeze the maximum amount of real values out of the propertied population by means of inflationary levies. At the beginning of the period of War Communism the chief means of financing Civil War was the printing-press, "the machine gun of the Commissariat of Finance that poured fire into the rear of the bourgeois system." As long as industrial production was not completely nationalised and the requisitions of grain were not in full swing, the Government was, in a sense, favourably inclined towards the maintenance of <sup>21</sup>unofficial market-sphere of fair proportions where the monetary tokens were still accepted. For, obviously, the profitability of a real tax in the disguise of inflation ceases "where no goods are brought on the market for sale against money (but are bartered or hoarded instead) and where consequently the purchasing power of money and the ability of the Government to raise real resources by inflation is reduced to zero." <sup>2</sup>

1 E. Preobrazhensky, Paper Money during the Epoch of the Dictatorship of the Proletariat, Moscow 1920 (R), p.4; (quoted by A.Z. Arnold, Banks, Credit and Money in Soviet Russia, New York, 1937, p. 96).

2 M. Dobb, Russian Economic Development since the Revolution, London 1929, pp.92-93. - The following table reproduced from Arnold, op.cit., p. 95, shows the share of the printing-press in supplying the State with revenue during the different years of War Communism: (continued on next page)

The illicit market was a market run mad and it became madder, more perverted and uglier still as the consummation of that astonishing period grew nearer. Driven underground, it revenged itself in a terrible and uncanny way by cutting off all the muscles and tissues of the economic organism. The vicissitudes of the military campaign, as well as the absence of a central executive power, resulted in the splitting up of the territory into parts and districts, severed from each other and in themselves not units at all. Under these conditions it was clear that all those who possessed secret stores of goods enjoyed a monopoly position. In times of economic standstill and disruption everything is in keen demand. The "scale" of priorities in the cities consisted sometimes of one item only: bread. The starving inhabitants were prepared to give almost anything in exchange for a bag of flour. Things like jewels, gold etc., which constituted the remains of wealth in the hands of the dispossessed bourgeoisie experienced a catastrophic fall in value. These people were at the absolute mercy of the bagmen and indiscriminately handed over their precious belongings in order to evade starvation. But such sorry remnants of private exchange were not allowed to exist very long.

For the last ultra-utopian phase of War Communism inescapably undermined the very foundations of market-circulation, whether legal, semi-legal or definitely illicit. Industry was co-ordinated in a gigantic super-

(continued from previous page):

Revenues in 1918-21 (in millions of pre-war roubles)			
	1918-19	1919-20	1920-21
From note issue	523	390	186
From taxes in kind, levies, confiscations	121	253	480
Total	644	643	666

centralised organism, the Prodravverstka was pushed to the utmost limit and, in the financial year 1920/21, yielded about 70 per cent. of the quantity of grain that had been available for consumption in the home market before the War, surely an astonishing accomplishment. The Narkomprod's sphere of operation was extended. Under such entirely and radically altered economic conditions "free" goods' exchange was bound to contract rapidly and progressively. This process can to some extent be gauged by the measure of decline in real purchasing power of the total volume of money.<sup>1</sup> Inflation, as a device for extracting real values from the body economic, became less and less effective, and monetary revenue and outlays played a negligible part as budgetary items in 1920.<sup>2</sup> Inflation became increasingly a conscious method of dispossessing the remnants of the propertied classes, of demolishing the monetary token as such and of expediting the building-up of a purged system of communist distribution without the intervention of medium and free from "capitalist loopholes".

Once the Soviet Government had destroyed all the essential pre-requisites of a tolerably normal market-mechanism it launched an energetic campaign against

<sup>1</sup> Cf. Arnold, op.cit., p. 93. (Table showing the purchasing power of the total volume of paper money in the years 1914-1922). The total issue of paper notes from November 1917 up till March 1921 amounted to 1,664,911,000 roubles. The purchasing power of the rouble, already reduced to 1.06 gold kopeks at the beginning of the November, was further decimated to 0.1 gold kopeks by October 1, 1919, and to 0.01 by October 1, 1920.

<sup>2</sup> Monetary taxation lost its importance in 1919. Z.B. Atlas (op.cit., p. 173) points out that, according to Galovanov's calculations, only 126 million gold roubles (or 7.3 per cent. of the total State revenue) represented monetary expenses in 1920. The real yield of inflation was thus very small indeed.

illicit trading. It thus added administrative punishment to economic annihilation.

The speculative abuses of the illegal market had surpassed everything of their kind, so much so that the places of illicit trading were very often supplied from State warehouses with the help of bribed and corrupted officials. This state of affairs could not be tolerated indefinitely by the Authorities. Raids and confiscations became more frequent! As an illustration of this tendency the decision of the Petrograd Soviet of July 1920 to exterminate private commerce with all the weapons at the administration's command and the closing down, in December 1920, of the famous Sukharevsky Bazaar in Moscow are indeed typical. Punitive expeditions were carried out with a certain ruthless enthusiasm, for the free market in general was "the supreme abomination to the hard-shelled communist and anathema according to the dogmas of the Communist Manifesto."<sup>2</sup>

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<sup>1</sup>The severity of the regulations can be gathered from two typical orders against speculation, reprinted in John Reed, Ten Days that shook the World, London 1926, Appendix, pp. 311-312.

<sup>2</sup>Kurt Wiedenfeld, The Remaking of Russia, London 1924, p. 90.

Lenin and his followers regarded the price-policy of the Czarist régime, particularly during the War, as a means of keeping up the profits of the various vested interests, i.e., of maintaining the margin of profits over and above costs at least constant, irrespective of whether or not such a policy would lead to a deterioration in the standard of living of the poorer classes of the population. As regards the Provisional Government the Bolsheviks considered its dispositions in the sphere of prices half-hearted and devoid of revolutionary purpose, since an effective system of price-regulation could only be established by control of production itself. Having nationalised production, including the production of manufactured goods, the Soviet State could, it was said, enforce the fixed prices for grain far more effectively than the previous Governments.

There seems to be little doubt that, in the first stages of War Communism, i.e., prior to the introduction of the Prodravverstka, the Bolsheviks hoped to be able to rely on the possibility of extracting "surpluses" of grain from the countryside by the method of price-fixation.<sup>1</sup> An effort was made to bring the price-schedules into line with monetary depreciation. Consequently, on August 8, 1918, the fixed prices for cereals were increased threefold. But although valid for a limited period only, viz., until December 1,

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<sup>1</sup>At the beginning of the collection campaign in May 1918 Lenin urged that each superfluous pood of grain should be requisitioned by the Government. "How can this be done? It is essential that the Government should fix prices." (Lenin, Collected Works, Russian edition, Vol XV, p. 340).



1918, they were soon overtaken by prices obtaining on the free market. At the same time, however, the price-fixing organisations strove to revise the price-schedules in such a way as to make them conform, as closely as possible, to the pre-war exchange-ratios between manufactured and agricultural goods. But even this so very unsatisfactory pre-war position could not always be achieved, although the fact that industrial production was vested in the hands of the State rendered the task somewhat more practicable than it was during the War.

With growing economic chaos and inflation, price policy as a means of gathering in agricultural resources and of regulating the economic relations between town and country was resorted to less and less. The decree of August 8, 1918, concerning the organisation of State-barter, reduced the volume of transactions in money to 15 per cent. of the value of industrial goods to be exchanged against agricultural produce. With the rapid deterioration of the monetary incentive prices became increasingly a merely nominal framework of exchange-equivalents as decreed by the Narkomprod for purposes of barter between town and country.

When the Bolsheviks finally embarked upon the compulsory assessment of grain, whereby maximum quantities of grain had to be collected in exchange for whatever manufactured goods happened to be at the disposal of the Authorities at a particular moment and in a given district, fixed prices began to lose their meaning, even as indicators of exchange-ratios. In cases where they were retained, they were supposed

to serve as units of account for the goods handed out, and received by, the State. In view of economic decline and inflation it may be doubted whether they were in any ways superior to straightforward entries in terms of simple physical quantities.'

The system of economic calculation broke down completely. The immediate cause was, of course, the demonetisation of the rouble. Only towards the end of War Communism attempts were being made to allow for depreciation by means of price-indices. These were of no avail, for the difficulties were only superficially attributable to inflation. The main reason was that the economic basis of the market had been destroyed and had not been replaced by any unified economic plan which would have made due provision for accumulation, an impossible scheme under the then existing conditions.

As things were, industrial enterprises ceased to be independent economic units producing for profit in the capitalist sense. Their integration in the Glavki and the Supreme Council for National Economy was justifiable only from the point of view of war economy, i.e. as a system of economising existing stocks and concentrating the remains of productive activity in the interests of the Army and other politically privileged sections of the population. Such a type of planning could not, however, prevent the dissipation of economic resources.

Maurice Dobb, in his Russian Economic Develop-

'The former unit of account, because of its instability, was useless and even dangerous as a measure, and no new unit had been found in its stead.' (Dobb, Russian Economic Development, op.cit., p. 131)

ment<sup>1</sup> describes the abolition of economic accounting during that period by pointing out that the figures of cost of raw-materials, appearing on the cost side of a balance-sheet represented merely the arbitrary decisions of some board or official, so that it was impossible, especially in the frequent cases of joint demand, to compare costs and to concentrate production on processes which were both the most economical and the most desirable in the social sense. Equally, it became a hopeless task to calculate the relative importance of consumers' goods, since the illegal market could not possibly be taken as a guide and no alternative system of estimating consumers' preferences had been devised, although the War had narrowed down the choice to a few primary wants.

The actual basis of accounting seems to have been rather haphazard at that time and differed in the various industries. But whether supplies were obtained gratis or at fixed prices,<sup>2</sup> made no real difference.

Thus, in the domain of the nationalised industries and the sphere of State-controlled distribution, prices, as independent regulators of inter-industrial relations and as indicators of consumers' wants, had soon ceased to exist.

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<sup>1</sup>P. 133 et seq. Comp. also Prokopovitch, The Economic Condition of Soviet Russia, London 1924, chapter on the Annihilation of Economic Calculation, pp. 36 et seq. Prokopovitch quotes a publication of the State Planning Commission of 1921 according to which the absence of accounting and commercial efficiency in the management of concerns was characteristic of the industrial situation in the middle of 1921. For other comments on costing under War Communism see Lawton, op. cit., Vol. I, pp. 107 et seq.

<sup>2</sup>These maximum fixed prices were determined by the Price Committee of the V.S.N.Kh., consisting of the representatives of the Narkomprod and other bodies, and had to be confirmed by the signatures of the chairman of the V.S.N.Kh. and the Narkomprod. (Miliutin, History of the Economic Development of the U.S.S.R., Moscow 1929. (R)).

It is in the illicit market that we find the remnants of an elemental and degenerate process of price-formation.

The price-level of the underground market was, to a certain degree, dependent upon the extent and organisation of State-supply in the different parts of the country, i.e., on the measure in which the most urgent needs of the population were satisfied by State-distribution of manufactured goods and foodstuffs. But, to maintain, as the Soviet economist Turetsky does, that "the level of speculative prices was inversely proportional to the extent of food-supply at fixed prices" <sup>1</sup> is both misleading and erroneous. We have seen how fixed prices, inasmuch as they were used at all, became divorced from the reality of productive processes. Besides no "inversely proportional" relationship could have been possible under conditions of a "flight from the rouble". People (including the peasants) not only gave up their beloved custom of putting money away in their stockings, but began to spend it as soon as they obtained it, <sup>2</sup> so that the astounding fall in the purchasing power of money outstripped the degree by which its volume was enlarged. <sup>3</sup> The more prevalent simple barter became, the more currency was available for monetary operations. Thus both barter and inflation activated the depreciation

(continued from previous page): p. 186). Cf. also Larin and Kritzmann, op.cit., p. 191. / Op.cit., p. 117.

<sup>2</sup>See, e.g., Arnold, op.cit., p. 96.

<sup>3</sup>Only in the second half of 1920 was the rate of depreciation below that of the increase in the volume of money. This is to be attributed, as is shown below in the text, to the realisation of the harvest.

of the paper notes.

On the whole it seems extraordinary<sup>ie</sup> difficult to make any generalisations on the processes of price-formation in the speculative markets of War Communism. Every attempt to interpret speculative market prices with reference only to the conditions of production and supply and the broad trends of demand in a state of unique social, military, organisational and monetary chaos is bound to lead one down a blind alley. True, the illicit centres of exchange had still preserved the outside appearance of a market. The prices which emerged at a given place and at a given time equated demand and supply at a certain point. We have seen that the market offered all those goods and articles which had escaped requisition in this or that way and could therefore be "commercialised". The illegal market thus fulfilled, it would appear, its essential functions under the then prevailing conditions. It secured the maximum supply of commodities which could be acquired by money and served the existing effective demands for those goods. But it has been indicated that the way in which that task was accomplished was bound to destroy a normally working price-mechanism at its roots.

Price-formation in the illegal market was determined by the local state of demand and supply and the local degree of inflation. The only broad generalisation with regard to price-movements which can reasonably be put forward is that there was an increase in the price of grain as expressed in goods and that the prices of foodstuffs grew at a much faster rate than



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those of luxuries.!

Prices rose from day to day, from hour to hour. Moreover, nothing like a unified market price could exist. It will be recalled that before, and during, the War there was hardly any unified price in existence, but under War Communism not even a remote resemblance ~~of~~ between the prices ruling in the different districts could be registered.

Inflation need not, logically, tamper with the unified price. The multitude of different price-levels was chiefly due to disintegration of the economy. Of course, inflation, as actually carried out, deepened the preverted retrogression of the market and the uneven local price-advances for the same class of goods. For there was, at no time under War Communism, anything that could properly be termed an effective central note-issue. Very often, due to transport difficulties and red tape, the People's Commissariat of Finance could not supply distant districts with the required amount of paper currency. The effect of that failure was probably a maddening increase in the velocity of circulation in the district affected or recourse to direct barter or both. On many occasions the poor organisation of a tolerably even distribution of the inflated means of payment led to the necessity, chiefly from the spring of 1919 onwards, to resort to local issues even in regions which were politically ruled from Moscow. But there was an infinite number of villages, towns and districts which had separate and

/ In face of commodity-famine it is not surprising that gold lost in value. A comparison of the respective indices reveals that already in 1918 gold bought ten times less than before the War.

and ever changing political executives printing their own tokens and thereby adding to the staggering extensions and varieties of the monetary output.

The chequered price-structure of War Communism is perhaps best illustrated by some concrete examples. Z.B. Atlas notes<sup>1</sup> that prices for rye-flour charged in Petrograd were 23.8 times higher<sup>2</sup> than those obtaining in Saratov and 15 times higher above those ruling in Ulianovsk at the same time. Each district had, as it were, a price-structure of its own, and the disparity of prices between the different parts of the country increased with the distance of the various regions from the sources of supply.

The rise of prices for necessities which could be noticed in the more important local markets was uneven according to the chaotic state of supply which, handicapped and suppressed, tried to catch up with the primitive preferences of a famine-stricken population.

On the Moscow market, for instance, prices for butter, sugar, millet and salt herring had risen more than ten thousand times as compared with 1913; prices for meat, milk and eggs from five to ten thousand times, and for cabbage and fresh fish less than five thousand times. In other markets the development was different. But it is interesting to note how, in spite of the atomistic price-formation, the realisation of the harvest retarded the speed of the price-advance

<sup>1</sup>Op.cit., p. 171 et seq.

<sup>2</sup>"Moscow and Petrograd are particularly expensive cities." (Larin and Kritzmman, op.cit., p. 74). Sometimes average prices in these two principal cities exceeded those obtaining in provincial towns by as much as 75 per cent. (But the concept of the average price-level had not much meaning in those days).

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all over the country. The upward race of prices slowed down in the second half of each year so that in 1920 the percentage increase of the monetary issue actually surpassed the Sovznak's rate of depreciation.<sup>1</sup>

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The more the monetary standard deteriorated the more the illegal market resorted to direct barter and, alongside these barter-transactions, new exchange standards, a kind of primitive commodity-money sprang up.<sup>2</sup> First they were rather casual but soon they began to develop into common standards in the different districts. In Moscow, about 1920, salt and baked bread strove~~d~~ for supremacy ~~as~~<sup>for</sup> what Marx has described as the "general equivalent". In other cities it was kerosene. Townspeople supplied themselves with this novel, or rather very ancient cash, before setting off to the countryside in their quest for goods. Still, the different illegal markets were not completely shut off from each other. Hence illicit commercial activity did not dispense completely with the use of paper currency, which at least reduced the local standards to one denominator.

The casual exchange-ratios in the various illegal markets cannot reasonably be expected to form a sufficiently reliable basis for generalising on the prevailing value-proportions between town and country during the period of War Communism. But some, if only inadequate information on this very important question can be gleaned from the barter-operations controlled

<sup>1</sup>Comp. the statistical appendix.

<sup>2</sup>For details of these primitive exchange-proportions under War Communism - e.g., 1 lb. of soap = 1 lb. of millet etc. - cf. the standard work by Vaisberg, Money and Prices (The Illegal Market in the period of War Communism), Moscow 1925, (R)).

by State organs before the introduction of the Prodrav-  
verstka.

It has been pointed out that prices in the early stages of the era under consideration were guided by the value-proportions that existed before the War. Owing to the extreme penury of industrial wares, however, certain adjustments had to be made in favour of the towns. Thus, according to information supplied by Larin and Kritzm<sup>1</sup>ann, the price-fixing Authorities had decreed in 1918 that industrial goods worth 100 pre-war roubles were to be exchanged against agricultural products worth 300 roubles. In August 1919 the proportion was altered to 1:2, while in the "underground" market it stood at 1:6 in September 1919. It would appear, then, that the countryside got the worst of the bargain.<sup>2</sup> But Larin and Kritzm<sup>3</sup>ann hasten to add that, so far as the barter-operations of the State are concerned, all these calculations were, in actual practice, often turned into their very opposite. For industrial goods the peasants paid with cash and supplied far less grain than was expected of them. The Authorities had, as was shown, to tighten up the regulations and to insist on an 85 per cent. payment in kind. Still, Larin and Kritzm<sup>4</sup>ann maintain that, if one considers the total amount of industrial wares that were distributed in the years 1917-1920 from the grain-producing districts and compares it with the State-collections, it appears that, on the whole, the peasant obtained, on the average, nearly twice as many manufactured goods as he would

<sup>1</sup>Op.cit., pp. 34 et seq.

<sup>2</sup>Cf. article on War Communism by A. Aikhenvald in the Great Soviet Encyclopaedia, Vol XII, p. 370.

<sup>3</sup>Larin and Kritzm<sup>3</sup>ann, op.cit., p. 34.

<sup>4</sup>Ibid.

have received in pre-war times for an equal quantity of grain.'

Whatever the truth of this statement may be, a closer analysis of the goods-circulation under War Communism bears out the inescapable necessity of introducing the Prodravverstka as the only effective means of alleviating, at short notice, the famine in the towns.

Until it came into operation in 1920, and in spite of the socialisation of supply and distribution, goods circulated in Russia in a form which Marx has termed "simple commodity-exchange" with the formula "commodity - money - commodity". This classification is applicable even to the schemes of State barter and not only to the the illegal market. The main object of "simple commodity-exchange" is to exchange values in

The fact that this observation applies to grain-producing regions only is, of course, a most important qualification. Moreover, even on the assumption that the villagers gave relatively less in return for the industrial goods they obtained, it is really the absolute reduction in the quantity of manufactured goods they received that matters. This reduction had caused the diminution of agricultural surpluses. But, if one can trust the figures supplied by Larin and Kritzmann, it would appear that the consumption of the villages had not suffered any severe contraction in the period of War Communism. "In grain-producing regions it (the consumption of the peasants) amounted to 105 per cent of the pre-war consumption, in the other provinces to 78 per cent, while the consumption of the urban population in the grain-producing districts amounted to 73.5 per cent and in the remaining provinces to 53 per cent. On the average the peasants consume 96 per cent and the urban population 60 per cent of what the respective groups consumed before the War." (Op.cit., p. 36). But even if one accepts this account, it must not be forgotten that famine in a particular district was brought about not so much by the drastic reduction of available foodstuffs in the country as a whole, but by the breakdown of supply in that district. <sup>as</sup>



use against other values in use. Even the appalling speculation in the illicit market was inspired by this end and not so much by monetary enrichment as such, which was clearly senseless. The satisfaction of immediate needs was the prime object.

The reason why State-barter failed and compulsory levies had to be resorted to was that, while the State controlled the supply of industrial and manufactured goods, agricultural produce was in the hands of a mass of small farmers. This contradiction produced different sets of valuations prevailing in the two sectors. The individual farmer valued the product of which he was about to dispose as well as the commodity he was eager to obtain in the traditional way, i.e., in accordance with the value-proportions, historically formed. For a pood of bread he expected to get (say) 150 pre-war kopeks, sufficient to buy 4 arshins of printed cotton. In actual fact he got (say) 500 roubles, hardly enough to buy a half-arshin of the cloth in question. This sort of thing was bound to impede exchange operations the more so, since, with the decline of industrial production, the value-proportions changed more and more to the detriment of the farmers. The Prodrazverstka transformed the commercial fund of agriculture by compulsory assessment into a goods-fund earmarked for the exchange against the State's manufactures at decreed equivalents, based not upon the traditional value-relations but on the norms of the Narkomprod guided by very rudimentary harvest-statistics and <sup>by</sup> the most pressing requirements of the

Army and the townspeople.'

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,The above analysis is essentially similar to that given by Professor Liashchenko. The Economics of Trade, Its Theory and Organisation, Moscow 1925,(R), pp.222 et seq.

Some generalised observations and conclusions on the period of War Communism, its trade, its distribution and its price-mechanism may now be opportune.

It is easy to criticise the utopian character of War Communism and to expose its detrimental effects on the country's economy. But, in the words of Dobb, "this positive difference the period of "War Communism" had made: it had swept the vested interests of the old system into the limbo of history; and the stage was to this extent cleared for the new chapter of State planning."<sup>1</sup> Furthermore, although it did not solve the problem of economic planning, it represented a rich store of planning practice gained by a painful process of trial and error.<sup>2</sup>

The existence of legal private trade up to the end of 1919 clearly shows that a marketless economy cannot be introduced instantaneously. The continued operation of the market, for some time at least, was taken for granted by Lenin, who believed that in the course of time a new organisational framework which would correspond to the revolutionised economic system, would gradually evolve. It seems, therefore, reasonable to assume that the total extinction of private trading activity was not primarily due to ideological hostility, but was rather caused by the exigencies of the military campaign which rendered the normal functioning of the market-mechanism impossible. At the close of the period, it is true, opposition

<sup>1</sup> Soviet Russia and the World, London, 1932, p. 54.

<sup>2</sup> The Economic Policy of the U.S.S.R., op. cit., p. 65.

to the market on doctrinaire grounds became all-powerful.

Analysis of the organisation of supply and distribution displays all the weaknesses of "consumers' communism", i.e., a system designed for handing out the dwindling stocks of a society living on its capital.<sup>1</sup> In the absence of central planning for a surplus the organisation of supply was essentially unproductive, inordinately costly, <sup>and</sup> ~~reducing~~ <sup>ed</sup> consumption to the satisfaction of the most pressing needs; it bore quite clearly the marks of war economy. Food shortage had adverse effects on productive activity,<sup>2</sup> although Lenin tried to link up supply with productive results and opposed the ultracommunist principle of Uravnilovka, i.e., equal rations to all workers, irrespective of the productivity of their labour. As regards the impact of famine there were very marked differences in the situation as between consuming and producing regions and the peasant class seems on the whole to have been less badly hit than the urban population.<sup>3</sup>

In spite of severe persecution, the market proved to be a social organism equipped with astonishing vitality and power of resistance. Illicit commercial ac-

<sup>1</sup>"After the October Revolution we lived to a considerable extent upon the old stocks inherited from the bourgeoisie. Then we started working up partly finished goods. And only after that did we ourselves begin to produce raw materials. That process led to a complete exhaustion of our resources, of our goods' fund." (A. Rykov's Report to the Eighth Congress of Soviets, held in December 1920; quoted by Prokopovitch, op.cit., p. 47).

<sup>2</sup>Ustinov, op.cit., pp. 46-47.

<sup>3</sup>"The peasants have retained their vitality to a far greater extent than any other class. ... their numbers have remained on the same level; peasant husbandry, although considerably ravaged, still exists; the de-

the text also

tivity was brisk and the "underground" centres of trade were relied upon as important reservoirs of foodstuffs and as a source of real values for the inflationary pump. After the abolition of a normal circulation of goods speculative abuses grew more and more scandalous and the State decided to apply very stern measures against the bazaars.

Price-fixing, originally used as a means of extracting agricultural surpluses, was based on pre-war value-proportions, the scarcity of manufactured goods being allowed for by mechanical alterations and adjustments in exchange-ratios. In the absence of a market link between town and country, under conditions of tremendous inflationary issues (destined to cover the "costs of the revolution") and the deterioration of production, however, price-fixing soon became a fiction. A primitive system of barter-economy developed as a kind of retrogression and exhibited all its inconveniences based on the absence of the identity of wants that led up to a dislocation between wants and values. Within such a system the peasants, as the possessors of foodstuffs and thus capable of waiting, had a strong bargaining position with the result that there was often an over-valuation of victuals.

The problem of cost, i.e., the covering of material outlays by material returns and the presence of means of assessing the relative costliness of different and alternative productive processes, was not

(continued from previous page): vastations in agriculture are by no means as heavy as in the case of other industries." (Masloff, Russia after four years of Revolution, op.cit., p. 28).



sufficiently grasped, although monetary Utopias, e.g., the attempts and schemes to substitute the paper token by a labour-unit of account and thus to establish a new foundation of costing, show that at the close of the period this problem began to dawn on the Bolsheviks. The main reason for the gross neglect of this most essential economic maxim was the rather naive and highly optimistic belief that the working class would show its appreciation of the blessings of the communist régime by an immediate increase in the productivity of labour. In point of fact exactly the reverse happened.

Apart from purely military reasons, this socio-psychological mistake explains the non-existence of a unified economic plan which is inconceivable under conditions of dwindling production, with the absence of exact statistical data and the division of the country's economic life into two main compartments, viz., the highly centralised State-controlled industry and the system of State supply on the one hand, and the mass of individual agricultural owner-producers on the other. The market, during the period under review, could not be relied upon to bridge the gulf between the two, and the Prodravverstka, the compulsory assessment of agricultural "surpluses" (if necessary by armed force), marks both the climax and the decline of War Communism.

## P A R T   I

## THE NEW ECONOMIC POLICY

## I N T R O D U C T I O N

## INTRODUCTION

When the Civil War had been brought to a victorious end by the Government, the staggering degree of economic decline and social disintegration became more evident than ever. Attempts to carry on and even to intensify the Utopian policy after the successful liquidation of the military campaign were bound to produce dissatisfaction and opposition. Revolts of peasants gained in strength and workers began to grumble. Another serious source of discontent was ~~the~~ army which, instead of being demobilised, was transferred to the so-called "economic front" in order to deal with the food and transport crises. The climax of this "counter-revolution" was reached in the rising of the Kronstadt sailors.

The political crisis was serious enough to have wrecked the Bolshevik régime had the Authorities assumed an intransigent attitude. But the conception that their rule must rest on a certain "class basis", i.e., enjoy the support on the part of the vital social groups of the community, was too strongly enshrined in the minds of the Russian Communists, to make them forgetful of the sentiments and grievances of the people.

It was not only political expediency, however, that dictated the abandonment of War Communism. The

/"The gross output of agriculture in 1920 was only about one half of the pre-war output—that of the poverty-stricken Russian countryside of tsarist days. ... The output of large-scale industry in 1920 was a little over one-seventh of pre-war. ... The total output of pig-iron in 1921 was only 116,300 tons, or about 3 per cent of the pre-war output. There was a shortage of fuel. Transport was disrupted. Stocks of metal and textile...exhausted." (History of the C.P.S.U.(B.), Moscow 1939, Engl.ed., p.248).

? Title?

change-over to the New Economic Policy (NEP) was also forced upon the Soviet Government by the vital need for economic restoration. But it is erroneous to think that the new measures were introduced haphazardly and on the spur of the moment. Heated discussions on the proper diagnosis of the economic situation and the nature of the economic policy to be adopted preceded the formal inauguration of the NEP. The controversy revealed an astounding diversity of opinion among the leading members of the Communist Party. <sup>1</sup>

Lenin's appreciation of the position was always one of extreme realism. He realised that, however advanced her working class, Russia was predominantly ~~an~~ agricultural country. The peasant economy, composed of millions of small-scale farmers, supplied the tissues and sinews of her body economic. It was clear to Lenin that a continuation of the system of compulsory levies would not only estrange the peasantry and lead to a sta<sup>t</sup>e of permanent food-shortage, but, by causing a serious contraction of the sown area, might also destroy the whole basis of agricultural re-production and thereby of the entire Russian economy.

While the Kronstadt rebellion was being quelled, the X Congress of the Communist Party had assembled to hear Lenin's historic speech <sup>2</sup> demanding the abolition of compulsory levies and their replacement by the tax in kind.<sup>3</sup> On March 15, the Congress adopted a

<sup>1</sup> Dobb, op.cit., pp. 152 et seq.

<sup>2</sup> Cf. Lenin's Collected Works, London, Vol. IX, pp. 107 et seq.

<sup>3</sup> It is significant that one of the main demands of the mutinous Kronstadt garrison was the abolition of the grain monopoly.



resolution ~~to the effect~~ that "in order to guarantee a normal direction of the economy on the basis of a freer disposition by the landowner over his economic resources the compulsory assessment as the method of State collection of foodstuffs, raw materials and fodder is replaced by the tax in kind." The decree promulgating the introduction of the tax in kind was passed on March 17<sup>2</sup> and it is customary to regard this date as the official inauguration of the New Economic Policy.<sup>3</sup>

According to Pollock the significance of the new tax was not so much that it replaced arbitrary requisitions by a contribution fixed according to the capacity of the farm but that it stipulated for the freedom of the peasants to dispose of their agricultural surpluses. The peasants could lay them aside or use them for their own consumption; but they could also exchange them against industrial, kустar or agricultural produce. It is significant that the decree envisaged a gradual reduction of the tax provided that the restoration of transport and industry would enable the Soviet Government to acquire agricultural

1 "At first the tax was of a multiform and complicated character, taking a proportion of each different kind of produce. Later it was simplified into a single tax, assessed in money; and after 1923 it was paid entirely in money and not in kind." (Dobb, op.cit., p.165, n.)

2 The passing of the decree appears to have coincided with the taking of the Kronstadt fortress by the Bolsheviks. (Cf. Lawton, op.cit., Vol. I, p.181).

3 In actual fact the reversal of the economic policy was far from being abrupt. It was not before May 17, that a decree prohibited further confiscation of industrial enterprises and suspended the general nationalisation decree. Only in June were such "War-Communist" measures, as the limitation of monetary circulation and the amounts which could be held by private individuals and organisations, repealed. On July, 14, 1921, compulsory labour service was abolished. The process of eliminating the remnants of ultra-centralism, viz., the replacement of the system

products in exchange for industrial and kустar produce,<sup>1</sup> but it is improbable that the framers of the decree ever contemplated the revival of a nation-wide system of internal commerce. The decree provided merely for the admission of exchange within the limits of local goods-turnover and emphasised the rôle of the co-operatives in the organisation of these operations.<sup>2</sup>

But however modest and circumscribed the freedom of the newly admitted trade activity was originally intended to be it certainly meant the re-admission of the principle of exchange-economy. From the point of view of the Communist Party this was a very grave decision indeed, for the Bolshevik leaders had enough commonsense to see the danger of the economic control reverting to the private capitalists and traders who were bound to come to the surface as a result even of this modest form of "laissez-faire".<sup>3</sup>

(continued from previous page): of orders by inter-industrial monetary settlements, of the food rations by money wages, and of taxes in kind by monetary contributions extended over 1-2 years. (Details taken from the Great Soviet Encyclopaedia, Vol. XII, article on War Communism and from Pollock, op.cit.)

/Pollock, op.cit., p. 120. - The amount of the tax had to be smaller than the former quotas.

<sup>2</sup>For details of this decree cf. Supreme Soviet of National Economy. The New Economic Policy in Industry. Collection of decrees, orders and regulations. With a foreword by the chairman, P.A. Bogdanoff, Moscow 1921 (R), pp. 11-13. As regards penalties for the non-observance of the decree cf. the order of the Sovnarkom dated June 15, 1921, concerning the responsibility as regards the infringement of the decree on the tax in kind and on exchange; *ibid.*, p. 70.

<sup>3</sup>Lenin, Collected Works, Vol. IX, p. 111 and p. 260. - Still, while this development was inevitable if the restoration of the economy was to proceed via the revival of an atomistic agriculture, the dialectician Lenin tried to see the positive elements of this departure. The pivot of Lenin's political philosophy and strategy was the conception of the "smytchka", i.e., the revolutionary contact, link or alliance between the working class and the peasantry. He realised that without the peasants' support the cause of the Revolution

(continued from previous page): was doomed. They had turned the scales in favour of victory in the days of the memorable October, but they had also voiced their warning when, by their stubborn opposition and obstruction, they had caused the ultimate collapse of the venture of War Communism. The Soviet régime would always retain its stability, so long as it had the support or, at least, the benevolence of the countryside, especially of the middle and poor peasants. This was impossible without considering and from time to time acceding to their economic demands. Lenin was willing to re-admit the market and the exchange-economy as the only way towards economic revival, but, at the same time, he was intent on utilising it as far as possible in the interests of socialism by strengthening State-owned industry. Lenin also hoped that in course of time the majority of the peasants would become convinced of the superiority of the collective forms of cultivation. - According to Lenin, capitalism was certainly an evil as measured by the standards of socialism; but it was a lesser evil than the Middle Ages and the small-scale agricultural production. Thus, in effect, Lenin proposed to transform the commodity-producing and capitalist economies, which were to be revived, into the system of State capitalism and to use that system as "the link between small-scale production and socialism, as a means of raising of productive forces" (Quot. by Pollock, op.cit., p. 119). From this point of view it can even be argued that the New Economic Policy was a "return to the path which was being trodden in the spring of 1918" (Dobb, op.cit., p. 165), the resumption, that is, of the realistic and moderate policy which was attempted during the era of Workers' Control but <sup>which</sup> had to be abandoned owing to the "strategic" needs of the Revolution.

## CHAPTER I

### STAGES OF THE NEP

## STAGES OF THE NEP

The New Economic Policy can be broadly divided into four main phases: (1) the period of economic chaos and crises (lasting from spring 1921 until autumn 1923); (2) the period of economic restoration (from October 1923 until October 1926); (3) the period of economic reconstruction (from autumn 1926 until about the end of 1928); and (4) the transition to integral planning (1928-30 or so). This pigeon-holing of economic evolution is, of course, to a great extent artificial in so far as no clear line of demarcation can be drawn between the different phases. The classification adopted is thus merely used for purposes of orientation and reference.

The first stage of the NEP is not without interest for it demonstrates the extraordinary vitality of the market-economy. It is astounding how rapidly the market recovered, how feverishly commercial activity sprang up after the long years during which it had been suppressed. The body of the capitalist economy had been nearly strangled by the clutches of War Communism; but as soon as the murderous grip was loosened, the victim recovered very rapidly. This

Some economic historians identify the NEP with the process of Restoration and term the ensuing period that of Reconstruction or Industrialisation. - The different evaluation of the country's economic history depends on whether the criterion of classification is the change in productive forces or the transformation of productive relationships. Being more interested in the latter, we consider our classification suitable for our purpose, in so far as the NEP, i.e., the method of utilising capitalist forces in the interests of socialist development, continued to be applied after the termination of the Restoration Period and even later.



excessively speedy recovery produced many undesirable features. Speculation, fraudulent practices and a shameless exploitation of human labour by private individuals were rampant,<sup>1</sup> although private initiative remained limited to the domain of internal commerce, handicrafts and small-scale industry.<sup>2</sup>

From the point of view of State industry the change-over from one set of economic principles to another was violent enough to produce consternation among industrial managers, and general economic disorder. According to the new industrial legislation each independent economic unit was expected to look after its own affairs, i.e., procure raw materials and the wherewithal for wage-payments. Under the then existing chaotic conditions of the market ~~this~~ was a very difficult task indeed. Lack of trading-capital, absence of normal market-relations, and organisational unpreparedness led to what is called "razbazarivanie", a term difficult to translate but denoting a process of indiscriminate selling-out of products of State industry irrespective of cost for the purpose of obtaining cash and other badly needed liquid assets. This process started at the end of 1921 and went on until the spring of the

<sup>1</sup>Private enterprise, engaged in kустar or small-scale industrial production, could employ the services of up to ten and twenty workers respectively. (Cf. the decree of the All-Russian Central Executive Committee and the Sovnarkom concerning kустar and small-scale industry dated July 7, 1921; Collection of Decrees etc., p. 31). But it was not before May 31, 1922, that the Presidium of the Moscow Council of Workers', Peasants' and Soldiers' Deputies issued a decree concerning the conditions of employment in trading establishments. (Cf. Systematic Collection of the more important decrees, decisions and regulations of the Central and Local Authorities relating to Home Trade, Moscow 1923, (R), p. 32).  
<sup>2</sup>All the important key-positions like large-scale industry, banking and finance, and foreign trade remained in the hands of the State. Only in exceptional circumstances

following year, resulting in a further dissipation of turnover-capital. Nevertheless the process of "raz-bazarivanie" soon led to an acute "sales-crisis"(in the spring of 1922.)

In view of the reduced volume of production, the difficulties which arose in connection with the sale of industrial products were rather baffling on first sight. On closer examination it appears, however, that they were due to the inordinately high cost of industrial production, organisational defects of marketing etc. and the disastrously bad harvest of 1921 which had curtailed the purchasing power of the population.

It became possible to alleviate the "sales-crisis" towards the early autumn of 1922, for meanwhile certain economic improvements had taken place, chiefly owing to the good results of the harvest of 1922 and its beneficial effects on the "holding power" of the market. The monetary situation was slightly easier, credit-operations increased, industrial production had recovered in many directions, while, thanks to the improvement in marketing, the newly established Trusts<sup>2</sup> were no longer eager to dispose of their stocks indiscriminately. Especially the light industries availed themselves of the temporary boom and soon prices for their products began to recover and to exceed their cost-of-production-level.

(continued from previous page): were big industrial undertakings leased out to private persons, chiefly foreign capitalists; but even then they continued to be supervised by the local councils of national economy. / Cf. Prof. Isichenko, Industry and the Market for its products, a statistical and economic study, Moscow 1923, (R), pp. 44-5. A marked degree of recovery could be observed in e.g., wool, linen, rubber, leather, sugar. <sup>2</sup> Cf. below.

But although the irresponsible "razbazarivanie" had ceased, the desire of the new economic organisations to maximise sales with a view to augmenting their turnover-capital remained. This motive was the main "psychological factor" which contributed to the rise of the industrial price-level and <sup>to</sup> the fall of the agricultural. This "scissors"-crisis hit not only the peasantry, but also the urban population. It lasted until the autumn of 1923. Its successful liquidation by the Authorities put a stop to an egoistic, short-sighted and one-sided enrichment of industry and ushered in a new phase which is commonly known as the Restoration Period.

In order <sup>to</sup> <sup>really</sup> restore industry the illusionary and dangerous "restoration" which had led to a series of economic disturbances had to be terminated. By various direct and indirect measures the Government had succeeded not only in arresting the "scissors"-movement of prices but also in reducing industrial and in raising agricultural prices. Now the <sup>genuine</sup> process of restoration could commence.

At the beginning of the financial year 1926/27 industrial production had roughly attained its pre-war level. But it would be wrong to interpret the essence of the Restoration Period as a return to pre-war capitalism. Soviet economic textbooks stress the fact that while on the whole the chief task of the Restoration Period consisted in "restoring the old fixed capital

/The expression was, we believe, coined by Trotsky. It compares the movement of the two price indices with the opening of scissors' blades. A fuller discussion of the "scissors" phenomenon will be found in the chapter on prices and costs under the NEP.

(plant)...gigantic changes occurred in the national economy of the U.S.S.R. and the inter-relationships of production were radically altered as compared with pre-revolutionary times."

On the other hand it would be erroneous to assume that the Restoration Period put an end to all squandering and dissipation of economic resources and placed the enterprises on a rational footing throughout. It was not before the spring of 1924 that the Monetary Reforms were successfully brought to conclusion, the worthless notes being gradually eliminated from circulation and replaced by a stable currency, while the budget was balanced.<sup>2</sup> True, these Reforms had the most beneficial

<sup>op.cit.</sup>  
/Cf. The Economic Policy of the U.S.S.R., p. 71. Some industries like coal and electricity by far exceeded the pre-war level; and (if the Soviet statistics are trustworthy) the same applies to the productivity of labour. Soviet economists take pride in asserting that the speedy recovery, in spite of absence of foreign assistance and of the after-effects of the Civil War, was due to the existence of socialist elements in the new economy (e.g., State control of "key-positions"). As regards a comparison of rates of expansion in U.S.A., Britain, Germany, France and the U.S.S.R. cf. V.E. Motylev, The Problem of the Speed of Development in the U.S.S.R., Moscow 1929, (R), table 12 on p. 27. The figures suggest a speedier and more uniform recovery of heavy industry in the U.S.S.R. than in the other countries.  
<sup>2</sup>The Monetary Reforms took a considerable time for completion. So long as the collection of money taxes yielded but small results, the budget deficit had to be covered by the issue of token paper money, the so-called "Sovznak". Politically, the opposition of the Left Wing Inflationists against the stabilisation of the monetary system had to be overcome. On November 27, 1922 the State Bank was empowered to issue the new chervonetz bank-notes, the chervonetz being equal to 10 pre-war gold roubles. The lowest denomination of the new notes was 1 chervonetz. Until spring 1924 there existed in Russia a parallel system of circulation of two paper currencies, for the Sovznaks were still being issued for "budgetary purposes". This abnormal parallelism (the Sovznak was continually depreciating in terms of the chervonetz) was abolished by a series of decrees promulgated in February and March 1924 (based on a memorandum submitted by Sokolnikov, People's Commissar of Finance). The Sovznaks were redeemed at the rate of 50,000 roubles of the so-called 1923-notes (or 50,000,000,000 old roubles) for 1 gold rouble. The Treasury was authorised to issue



effects, but since capital investments were not embodied in a purposeful scheme of planned expansion the growth of production resulted very frequently in heavy financial losses. The principle of a prudent earmarking of funds for purposes of depreciation was often neglected, the reserves being raided with the object of providing for further industrial expansion.

With the growth of private commerce and the strengthening of the State and co-operative network as well as the general normalisation of market-conditions the scarcity of circulating capital became less stringent. But the major difficulty of the Restoration Period seems to have been to arrest the dissipation of fixed capital and to achieve the full utilisation of existing plant.<sup>1</sup> It is admitted that the process of "eating-up" fixed capital did not stop until 1925.<sup>2</sup>

During the Reconstructive Period it was the renewal and expansion of the fixed capital that had

(continued from previous page): currency-notes in 1, 3 and 5 roubles gold to be legal tender for all transactions. Their total amount was not to exceed one half of the chervontzy and, although no fixed relation between the two types of currency was provided by law, the State Bank declared its readiness to exchange them at parity with the chervontzy. (This double currency resembled, incidentally, the English system as it existed from the beginning of the War until the Currency Reform of 1928. Another feature of resemblance is that the State Bank was divided into an Issue and a Banking Department). During the financial year 1924-25 the budget deficits ceased to be covered by inflationary issues. It was not before the beginning of the financial year 1925-26, however, that a chervontz-budget was drawn up for the whole of the country. (For details Cf., e.g., Atlas, Money and Credit, Moscow 1931 (R) Prof. L.N. Yurovsky, Currency Problems of the Soviet Union, published in Russian and English; S.S. Katzenellenbaum, Russian Currency and Banking 1914-1924, London 1925; L.E. Hubbard, Soviet Money and Finance, London 1936; A.Z. Arnold, Banks, Credit and Money in Soviet Russia, New York, 1937).

<sup>1</sup>During the Restoration Period the average utilisation of plant did not exceed 50-60 %. (Cf. A.M. Ginzburg, The Problem of Capital in Soviet Industry, Moscow 1925, (R), p. 25.)

<sup>2</sup>The Economic Policy of the U.S.S.R., op.cit., p. 69.



to be tackled first and foremost. For the main task of this third stage of the New Economic Policy ~~were~~<sup>as</sup> considered to be the reconstruction of the country's production beyond the pre-war level as the preparatory step for the initiation of Soviet industrialisation, i.e., the complete overhaul and re-equipment of Soviet industry in general, and of the heavy industries in particular.<sup>2</sup> The problem of industrial accumulation

All these economic changes and difficulties within the NEP were proceeding against a background of bitter controversy inside the Party. Attention was focussed on three main conceptions of Russia's future development. The followers of Bukharin (the Right Opposition) thought that peaceful co-existence of capitalist and socialist elements in the Russian economy was possible and that the bourgeoisie would in the end peacefully "grow into socialism". The Left Opposition of various shades (the Trotskyite group and the followers of Zinoviev and Kamenev) maintained that socialism in Russia was an impossibility because of the absence of socialism in the West and the technical and economic backwardness of the country. On the other hand the "General Line" of the Party's Central Committee (headed by Stalin) believed in the possibility of "Socialism in one country" (cf. Leninism, op.cit., Vol. I, pp. 52 et seq.) and consequently in Russia, provided her backwardness were overcome with all possible speed; Stalin conceded, however, that the danger of capitalist encirclement would remain so long as the U.S.S.R. continued to be the sole socialist State. (cf. History of the C.P.S.U. (B), p. 274). The practical manifestation of this latter conception was the policy of industrialisation which was decided upon by the XIV. Party Congress (December 1925).

<sup>2</sup>"...in the restoration period there were three main shortcomings. Firstly, the mills and factories were old, equipped with worn-out and antiquated machinery, and might soon go out of commission. The task now was to re-equip them on up-to-date lines. Secondly, industry in the restoration period rested on too narrow a foundation: it lacked machine-building plants absolutely indispensable to the country. Hundreds of these plants had to be built... Thirdly, the industries were mostly light industries. They were developed and put on their feet. But, beyond a certain point, the further development even of the light industries met an obstacle in the weakness of heavy industry, not to mention the fact that the country had other requirements which could be satisfied only by a well-developed heavy industry. The task now was to tip the scales in favour of heavy industry. All these new tasks were to be accomplished by the policy of Socialist industrialisation." (History, etc., p. 280).

became more urgent than ever, for the resources which the Government could draw upon were extremely limited; owing to the demoralising effect of inflation the population was not particularly eager to save; foreign credits were negligible in volume and the "self-accumulation" of industry was relatively small by reason of the low level of efficiency and productivity. In spite of all this, however, accumulation in the U.S.S.R. proceeded at a much higher rate than under Czardom.<sup>1</sup> It was proudly asserted that "financial sources were tapped in the U.S.S.R. such as could not be tapped in any capitalist country..The Soviet state had taken over all the mills, factories, and lands which the October Socialist Revolution had wrested from the capitalists and landlords, all the means of transportation, the banks and home and foreign trade. (Their) profits...now went to further the expansion of industry, and not into the pockets of a parasitic capitalist class. The Soviet Government had annulled the tsarist debts, on which the people had annually paid hundreds of million of gold rubles in interest alone. By abolishing the right of the landlords to the land, the Soviet Government had freed the peasantry from the annual payment of about 500,000 gold rubles in rent. Released from this burden, the peasantry was in a position to help the state to build a new and powerful industry."<sup>2</sup>

But notwithstanding the high rate of industrialisation,

<sup>1</sup>Viz. 19.2 % of the depleted national income in 1925/26 as compared with some 10% before the World War. (Cf. Memorandum No.3, p.8., of the Birmingham Bureau of Research on Russian Economic Conditions).

<sup>2</sup>History etc., pp. 281-82. Nevertheless, "primary accumulation", i.e., the method of direct and indirect diversion of economic resources in the interests of industry (mainly

industrial goods remained costly and their quality poor. Attempts at rationalising production and raising the productivity of labour did not yield the desired results. Another disquieting feature was unemployment in the cities which industry, short in capital, could not absorb. This urban unemployment (affecting mainly the unskilled labourers and numbering some 3 million) was due chiefly to rural over-population, and was but one manifestation of the anomalous relation between industry and agriculture. *l*

The major contradiction of the Reconstructive Period was the co-existence of capitalist and socialist elements in the economy and the struggle for their ~~extirpation~~ *of the former* was intensified in all directions. In fact, this struggle had been continuously going on since the inception of the NEP. throughout its various stages. The occupation of the ground proceeded rather systematically: the "retreating" Government had entrenched itself in its stronghold (industry, finance, transport etc.); after consolidating its position there it attacked the capitalist "fortifications" in internal commerce and then went forward to take the kulaks (who had re-appeared in the villages) by assault. Such was the "strategic conception" of the operations, but at times the attacks proceeded simultaneously.

(April 1929)

After the XVI. Party Congress the advance was begun on all fronts. Increased Government intervention marked the dawn of Integral Planning and heralded the death of the New Economic Policy.

(continued from previous page): from agriculture) was resorted to on many occasions.

/Cr. Pollock, op.cit., p. 176.

The small and backward farms could not support the growing agricultural population.

## CHAPTER II

## BEGINNINGS OF COMMERCIAL ACTIVITY

## BEGINNINGS OF COMMERCIAL ACTIVITY

We have noted that according to the original intentions of Lenin and his followers the freedom of commercial activity which the tax in kind had perforce introduced was to be kept within the limits of local goods-exchange and that the participation of private traders in these operations was to be restricted by entrusting the co-operative movement with the duty of handling the bulk of the newly established turnover of goods. Consequently, the recovery of trade proceeded rather slowly at the outset. The market was somewhat suspicious of its regained freedom and did not dare to show a provocative attitude. The legal conditions governing the opening up of shops and other trading enterprises were at first hardly conducive to the fostering of the spirit of security, so vital to trade and commerce. In the beginning, special permits were required for the setting up of a trading business and only in April 1922 was this practice discontinued and substituted by the system of ordinary trade licences.

Originally, exchange was allowed "in corn, grain-fodder, potatoes and hay in the provinces where the assessment has been carried out", and was presumably to be conducted on a local basis. This was surely a very modest concession, but the population availed itself of it to the full. The impetus to revive exchange came apparently not so much from the peasants but from the starving population in the towns.

/ Quoted by W. Braithwaite, Private Trade in Communist Russia, Russian Economist, London 1921, p. 1477.



Commercial activity was limited not only as far as space and the range of commodities was concerned, but it was also greatly hindered ~~by the~~ principle of "compulsory equivalents" in accordance with the decree issued on May 24, 1921.<sup>1</sup> This principle, whereby the urban centres, represented by the co-operatives and the economic organs of the Government and possessing a monopoly over industrial produce, claimed the right to determine the exchange-proportions between towns and the very nature of the goods to be exchanged and country, shows quite clearly that it was not trade at all, but supervised goods-exchange which was originally contemplated. But life soon threw the principle of "compulsory equivalents" into the dustbin of the past. As soon as the most urgent requirements of the countryside in industrial produce had been met on extremely disadvantageous conditions, the peasants, sensing their growing competitive strength, began to resent the dictated terms of exchange. The Authorities yielded very unwillingly, however. Even as late as 1922 goods-exchange was considered, in principle, as the most desirable form of economic contact between the towns and the villages.<sup>2</sup>

The main objection to the principle of "compulsory equivalents" is, of course, that by forcing

<sup>1</sup>The new economic policy in industry, Collection of decrees etc., Moscow 1921, p. 48.

<sup>2</sup>"To illustrate the application of the principle of equivalents the following examples may serve. (1) Smolensk, June 7th (1921). The work of the organisation of trading has started at full speed throughout the province. At present, a pood of potatoes is being bought for 3 lb.<sup>9</sup>/<sub>16</sub> salt and 1 arshine of cloth (yarn). ("Pravda", 11.6.21). (2) Comrade Matveieff, a member of the Board of the Glavtextile communicates that in the Siberian factories the exchange is made on the basis of 1 pood of woollen yarn for 1 pood of potatoes. ("Pravda", 26.7.21). ... The examples could be multiplied, but what is given

people to exchange their goods against articles which they do not require and, consequently, are endeavouring to re-dispose of, the economic advantages of trade are sacrificed and the door left open to manifold abuses.

On the other hand it must be recognised that the change of economic policy was too abrupt for freedom of trade to be introduced at once. A certain period of organisational and psychological adaptation was necessary in order to cope with the forces of the market. The lower executive organs particularly were loath to put the new economic decree of the Central Authorities into practice.<sup>1</sup> They detested commerce and did not understand its processes apart from being convinced that it meant the revival of capitalist elements.

Towards the close of 1921 Lenin's Government realised that the experiment of restricting the market-sphere to a local turnover of goods under the general supervision by the co-operatives had failed. The revival of inter-economic bonds had very soon exceeded the limits of local exchange. The exchange-relations between different regions, the towns and the country, began to assume the form of trade pure and simple, i.e., <sup>u</sup>buying and selling. This new and, for

(continued from previous page): here makes it clear that the equivalents or the fixed prices (or maximum prices) are established on two principles: either on that of the existing market-prices or on that of the pre-war prices. It is clear that both these principles can be applied in practice only on condition that there exists no competition whatever. Both <sup>of</sup> these principles will be effective only until a certain level in the satisfaction of the peasants' most urgent requirements is reached." (W. Brathwaite, op.cit., pp. 1478 et seq.)

<sup>1</sup>/Cf. Great Soviet Encyclopaedia, Vol. XI, p. 482. (Article on the C.P.S.U.(B)).; Ustinov, op.cit., p. 50; the new economic policy in industry etc., op.cit., p. 17.

some Communists, rather unexpected development was admirably summed up by Lenin thus: "A number of decrees and orders, an enormous number of newspaper articles, the whole of our propaganda and all the laws passed since the spring of 1921 were all directed to the purpose of improving the exchange of commodities. What was implied by that term? ... It implied the more or less Socialistic exchange throughout the country of the products of industry for the products of agriculture; and by means of this exchange of commodities, the restoration of large-scale industry as the sole basis of Socialist organisation. But what happened? You all know from your own <sup>practical</sup> experience, that the exchange of commodities broke down; it broke down in the sense that it assumed the form of buying and selling. ... We must admit that the retreat has proved to be insufficient, that we must make a further retreat from state capitalism to the creation of state-regulated buying and selling and money circulation. Nothing came of exchange of commodities, the private market proved to be stronger than we and instead of the exchange of commodities we got ordinary buying and selling, trade. Take the trouble to adapt yourselves to this, otherwise you will be submerged by the element of buying and selling, of money circulation."

The main practical lessons to be learned from this extremely frank pronouncement were, firstly, that

1/Collected Works, Vol. IX, pp. 288-9. A resolution passed by the Party Conference of May 1921 recognised that local goods-exchange had broken down and demanded that no impediment be placed in the way of real free trade. But only subsequent Party gatherings formulated the necessity of developing market relations.

both life and the constellation of social forces were on the side of the market and that the State had to assume, willy-nilly, the rôle of a trader, so as to maintain its economic power. But, secondly, in order to be able to achieve this object, the Communist officials had to learn the art of trading, a distasteful occupation indeed for former professional revolutionaries. On several occasions Lenin stressed the urgent need for the Party to overcome its neglect and disdain of trade, for only then could one successfully fight capitalism with its own weapons. Thirdly, it was patently necessary to supervise and regulate the activity of private traders.

Since originally free exchange of surplus products was only permitted to producers, there was, in the first months of the NEP, no separate merchant class. The first people, then, to engage in trading were the "bagmen", the sorry pioneers of the capitalist revival. Closely watched by the police they congregated in market places and sold their goods to the public. In the beginning there was not much difference between these new markets and the semi-legal bazaars of the days of War Communism. Slowly but surely, however, barter operations were superseded by monetary exchange. Germanoff, a prominent member of the Centrosoyuz, writing in the "Ekonomicheskaja Zhisn" on September 6, 1921, described the situation thus: "Up to April and May, the peasantry everywhere were refusing to

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"Our whole State trade and our New Economic Policy represent the application by us, Communists, of commercial, capitalist methods. ... The capitalist could organise supply. He did it badly and rapaciously. But still the capitalists could do it. And you, can you do it? You can't. ... You should try out the

accept paper money, demanding, in exchange for their agricultural produce, to be given certain material goods. Since the spring an altogether different tendency becomes noticeable: money is more readily accepted.<sup>1</sup> But it took some time until conditions became more or less normal throughout the whole country and the bagmen and dishonest State employees, "having access to the stocks or possessing considerable amounts of ready money"<sup>2</sup> were displaced by the professional tradesmen with whose appearance the worst abuses were mitigated and price-movements unified and evened out, to some extent at least.

It is only too natural, in view of the general economic condition of the country, that the beginnings of trade-activity were almost exclusively confined to foodstuffs. Only in August 1921, <sup>did</sup> industrial wares and kустar produce make their appearance in the market, but their sources were often illicit.

Even at this early stage of trading it became evident that the new system was superior to the barter-economy of War Communism when people were compelled to accept things they really did not want. The reasons for the superiority and success of the

(continued from previous page): new methods: we are not striving after profits, our principles are communist, our ideals are commendable, you are real saints who should go to paradise alive, - but can you do business?" (Lenin, Collected Works, Vol. XXVII, pp. 232-233, third edition, (R); quoted by Neiman, <sup>INTERNAL TRADE OF THE U.S.S.R., 1936 (CR)</sup>, p. 102).

<sup>1</sup>Quoted by Braithwaite, op.cit., p. 1488.  
<sup>2</sup>Ibid., p. 1482.



resurgent trade <sup>are</sup> ~~is~~ aptly summarised by Germanoff thus: "The mobility, the elasticity, the individual adaptability to the customer's requirements, the skill in obtaining from our stocks those goods, for which there is a demand, the utilisation of the growing home-industry and the possession of the amounts of currency, required for trading operations on a small scale - all these advantages guarantee a quick commercial turnover." / It is only too natural that the Communist leaders were highly perturbed by this development, the more so as they realised that, in order to be able to meet private trade on its own plane, as it were, it was absolutely vital to put an end to centralism in distribution and build up autonomous trading organisations which could adapt themselves to the laws of supply and demand.

It will be recalled that in the beginning of the NEP the monopoly of Government purchases had been entrusted to the co-operatives as organs of the Narkomprod. Very soon it became clear that in so far as private economic activity had succeeded in utilising home-industry, the monopoly position of the co-operatives turned out to be a handicap rather than an advantage in practice: the co-operative agencies were not allowed to make their own terms with the peasants with the result that they were gradually being ousted by the competition of private traders. This created great difficulties for Government collections of foodstuffs.

Very soon the co-operatives started to circum-  
vene the regulations and to engage in independent  
transactions. By the decree of April 7, 1921, the  
/Quoted by Braithwaite, op.cit., p. 1488.

legal status of the co-operatives was altered.<sup>1</sup> They were declared independent economic organisations outside the direct supervision by the Narkomprod. But this early decree (based on the directives of the X Party Congress) was <sup>too</sup> ~~by far~~ insufficient to take due account of the changed economic circumstances. The principle of compulsory membership remained in force, although the decree provided for certain modifications in this respect.<sup>2</sup> Besides, the right of free buying and selling was ensured on paper only, for the apparatus of the co-operatives continued, in fact, to be used mainly for the fulfilment of the distributive functions of the Narkomprod, with the only difference that the relations between the Narkomprod and the co-operatives were supposed to be contractual, the co-operatives being entrusted with the exchange of manufactured goods against agricultural produce and ~~the distributive~~<sup>of</sup> articles of prime necessity to the population.

The emancipation of the co-operatives and their transformation into independent trading organs was carried a step further by the decree of September 1, 1921, according to which the granting of Government subsidies for the purpose of defray<sup>a</sup>ing the administrative and other expenses of the co-operatives was discontinued. But in fact the distributive functions of the co-operatives did not cease before the food-

<sup>1</sup>Cf. Blanc, *The Co-operative Movement in R., NY, 1924*, p. 223. For details of the decree cf. Orloff, *The Revival of the Co-operative Movement in Russia*, *Russian Economist*, Vol. 2, pp. 1935 et seq.

<sup>2</sup>The decree allowed the formation within the unified co-operative societies, of voluntary consumers' associations, classified by trades and districts.

scarcity (due to the bad harvest of 1921) had been overcome.

In the measure as the legal restrictions on commercial activity came to be removed, it became evident that the co-operative movement could not be expected to cope with the growing turnover of goods. State industry needed a trading network of its own, so as to relieve the co-operatives and to supplement and enlarge the marketing organisation. In December 1921 Government enterprises were authorised to dispose of part of their goods in the market. Multifunction State trade organs began to spring up, marking the inception of a State trade proper, whose rather complex mechanism we shall discuss later.

The early phase of internal trade under the New Economic Policy came to an end when (1) private trade had been granted the charter of at least relative legal security; (2) when the State realised that its scheme of goods-exchange (in the form of a controlled local, regional and even all-Union turnover of commodities) had failed and that it had by necessity to adapt itself to the growing sphere of the market and its inherent laws; (3) when in view of these circumstances the co-operatives were freed from their purely distributive functions and given the opportunity to face the private traders on equal terms; and when (4) the State decided to build up its own trading system so as to bring its industries into closer contact with the consumer.

### CHAPTER III

#### TRENDS OF INTERNAL TRADE UNDER THE NEP



TRENDS OF INTERNAL TRADE  
UNDER THE NEP

Let us now trace very briefly the main trends in the development of internal trade under the NEP, after commercial activity had emerged from its state of infancy.

In its first phase which lasted until about 1923/24 the market was almost free and the outstanding feature of the development was the emergence of a national trade network. The speed at which the formation of trade channels proceeded was, at times, rather extreme, in relation, that is, to the volume of goods which could be handled in those days. In the first ~~six~~ months of 1922 there were already 584,000 commercial enterprises in existence. About 486,500 of these, or more than 83 per cent were concentrated in the cities, while the vast agricultural districts were served by less than 100,000 shops. The new commercial enterprises were almost exclusively owned by private persons, viz., 544,000 units or 93.9 per cent. The remainder (6.1 per cent) was owned by the State (1.9 per cent) and the co-operatives (4.2 per cent).<sup>1</sup>

The emerging market-relations were of the most primitive nature (i.e., local bazaars). In the first phase these contacts were strengthened by local and regional fairs, local co-operatives and local Torg<sup>2</sup>. But soon there arose the difficulty of integrating

<sup>1</sup>A. Nikolin, About Internal Trade, (R), Moscow 1928, p. 15.

<sup>2</sup>Cf. below.

the newly created retail trade network with the wholesale marketing organisations of the State. A stop-gap measure was the reliance on the help of State and private middlemen, the private elements (owing to a better knowledge of the market's requirements) capturing the lion's share of these operations. But the necessity for setting up intermediate trade links remained, if only for the fact that the system of middlemen led to sundry abuses, like speculative re-sales and the like.

The enormous number of small trade-units in relation to a very scant volume of merchandise resulted in slight individual turnovers carrying an excessive proportion of trading oncost.

In view of these rather undesirable developments the Authorities started to regulate the processes of trade. Although the first phase remained essentially one of non-interference, the State remained watchful. In spring 1922 the first central Government department for dealing with questions of internal trade was set up.

The growth of the volume of turnover was rather encouraging. In spite of the harvest failure of 1921, the slow restoration of industrial production (which barely covered the requirements of the cities), and the different economic crises, the volume of trade, although its advance was slowed down, was constantly on the increase.

The second phase in the evolution of internal trade under the NEP (which comprises the years 1923/24 and 1924/25) set in with the beginning of the Komvnu-

torg's rather weak regulative activities. Party historians characterise this period as one of a new arrangement of forces, marking the beginning of the advance of socialist elements in the sphere of trade.

The aim of the State at that stage was to obtain a hold on the wholesale trade organisations which came to be increasingly regarded as belonging to the species of economic key-positions. Only after the "conquest" of private wholesale trade were the positions of the bourgeoisie in retail commerce attacked. At the end of 1924/25 the relative shares of the different social types of trading activity in reference to the number of trading units had changed as follows:

State trade	5%
Co-op. trade	18%
Private trade	77%.

At the same time, while the numbers of trading units remained relatively unaltered, its distribution as between urban and rural districts was ~~somewhat~~ to some extent rectified; the number of town shops dropped by approximately 25 per cent, while the trade network in the villages was enlarged.

After the liquidation of the sales and "scissors" crises and the general cheapening of industrial products commercial turnover increased by leaps and bounds. The normalised market exhibited an ever growing absorbing capacity for goods and there were no longer any unsold stocks in existence. On the contrary: scarcity of goods, nay, a veritable goods famine became noticeable, especially at the end of 1925.

The market did its best to circulate the available  
/Cf. below.

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output of commodities as rapidly as possible, but <sup>the</sup> ~~its~~ of trade turnover expansion was held in check by the existing shortage of trading capital. Thus trade lagged behind the rapid development of the productive forces of the country. The strain imposed on the market's capacity was particularly great in the case of agricultural commodities. At that time of revival every additional pound of increase in yield meant approximately the same increase in marketable surpluses. Without the existence of a co-operative apparatus which was an ideal instrument for combining the commercial interests of the agricultural producers with their interests as consumers the market would probably never have been able to cope with the task of effecting the exchange between the countryside and the towns.

In the third phase of the growth of trade under the NEP which lasted until the beginning of the Reconstructive Period, the schemes of the State Authorities to regulate and plan trade became more purposeful and unified. Whereas, formerly, planning measures, as applied to different markets, were isolated from one another, they became increasingly co-ordinated as regards contiguous markets and later as regards whole groups of markets (e.g., grain, industrial goods etc.). At that time attempts were being made to embody annual forecasts concerning the growth of commerce in the General Control Figures of the National Economy (which were first compiled for the year 1925/26) and to sketch out roughly the contours of the plan for the development of trade as a branch of the whole economy for a quinquennial period



up to 1931/32.

The number of enterprises grew rapidly, while the numerical proportions of the three main types of trade remained nearly the same as in 1924/25 (private trade: 78 per cent; co-operative trade: 16 per cent; State trade 6 per cent). Owing to the preponderance of private trade in small-scale retail, like hawking and selling from travelling vans, the actual importance of the private trader was gradually on the decline, however.

In 1926/27 private trade began to contract numerically as well. Data for the R.S.F.S.R. for this year show that the general contraction of the trade network was attributable to the closing down of private shops. The number of co-operative trade units declined slightly, but <sup>their</sup> ~~its~~ specific weight<sup>u</sup> increased nevertheless. State trade grew both as regards the size of the network and the volume of its turnover.

The reduction in the number of trade units continued in 1927/28 and the State and co-operative trading organisations were fully occupied in filling the gaps so as to insure an adequate trading service to the consumer.

The next (fourth) more or less distinct phase in the development of trade under the NEP coincided with the beginnings of the Reconstructive Period. During this period the regulative grip on trade by the State was tightened still more and the fight against private commerce intensified. The volume of turnover handled by private commercial capital

continued to decline in the absolute sense. By that time the private merchant was almost completely removed from wholesale operations and his elimination from retail trade was carried on a step further. The rate of growth of co-operative trade outstripped that of State trade. Co-operation easily held the dominating position in the country's internal commerce.

## CHAPTER IV

## PRIVATE TRADE

Private Wholesale Trade.

On the whole it may be said that the influence of private wholesale trade during the NEP was, at no time, significant to any extent. As early as 1923 its turnover amounted to 20 per cent of that <sup>handled</sup> ~~effected~~ by State wholesale agencies! In that year the influence of the private wholesaler seems to have been greatest in the organisation of meat and cattle trade in the bigger cities and in textiles. (in commodity groups, that is, which were most directly orientated towards the consumer). But, as we know, the State soon realised the economic importance of wholesale trade by the early attention which it paid to the setting up of wholesale trading organisations of its own. Private wholesale trade, therefore, really never had a chance and its stubborn vitality in the restricted sphere of activity in which it was placed straightaway, is the more astonishing.

Although it proved to be relatively easy to remove it from the more important wholesale transactions, it retained, for quite a long time, its positions in the "intermediate" wholesale dealings, i.e., dealings which were put through by the Torgi, viz.,

The volume of wholesale transactions effected between State Trusts and Syndicates on the one hand, and private persons on the other, declined rapidly: (cf. Nikolin, op.cit., p.65).

	1923/24	1924/25		1925/26		1926/27	
		1st half	2nd h.	1st	2nd	1st h.	3rd qu.
Total amount of wholesale sales of Trusts and Syndicates (in m.r.)	2,181.8	1,532.9	1,911.2	2,519.8	2,846.9	3,147.5	1,655
Sales to private persons (in m.r.)	326.9	133.5	220.4	217.5	221.1	204.9	83.9
Expressed as a %	15.0	8.7	10.5	8.6	7.5	6.5	5.1



wholesale enterprises of the State trading system organised on a provincial basis.<sup>1</sup> In 1925/26, in the total wholesale trade of 52 Torgi, sales to private merchants represented 16.5 per cent.<sup>2</sup>

Step by step, but nevertheless relentlessly, private commerce was being severed from the State-controlled industrial supplies. But when the merchants realised that they could no longer hope to replenish their stocks from State-owned warehouses, they retreated from wholesale trade only in so far as they now tried to obtain from the kustar industry all the raw materials, semi-manufactured goods and finished articles that were available. In the beginning, the kustar industry was largely privately owned and, not, as was later the case, organised in producers' co-operatives; it was therefore more easily accessible to private wholesale traders. Besides, since it turned out, almost exclusively, goods for the immediate use of the consumers, it was stranded without the help of private commerce which possessed superior knowledge of the market's requirements.

But, by and by, the Torgi became acquainted with the peculiarities of the local markets and the kustar industry was re-modelled along cooperative lines, so that the private wholesaler became more and more superfluous.

Being thus driven from the wholesale dealings in industrial commodities, private commerce concentrated its efforts on the trade in agricultural produce, but

<sup>1</sup>Cf. below.

<sup>2</sup>Cf. Nikolin, op.cit., p. 65.

in the measure as the State and co-operative agencies succeeded in securing the lion's share of the agricultural collections, the position of private wholesale dealers became untenable in this sector as well.

### Private Retailing.

Since in the beginning of the revival of private trade the market was characterised by an acute deficiency of trading units of the "socialised" sector, the private retailer, sensing that his newly granted lease of existence would not be of long duration, tried to make as much profit as possible. Consequently he tended to set up his business in the towns, the town market being obviously more lucrative as far as scale and range of activity were concerned. On the other hand, it was in the towns that the private retail merchant first began to feel the growing competition on the part of the socialised trade sector. The XIV Party Congress (December 1925) registered the tendency of the private trading activity to transfer its operations to the village. In 1924/25 the "specific weight" of the village sector of private trade increased to 37.2 per cent in relation to the total number of private trading units (25.4 per cent in 1923/24) and to 20.9 per cent in relation to turnover (13.5 per cent in 1923/24).<sup>2</sup> At the end of 1925/26, of the existing private shops etc., 61 per cent or 368,000 units were in the towns, while the corresponding figure for 1924/25 was 69.7 per cent.<sup>3</sup>

<sup>1</sup>/Cf. below. for details. (ch.: socialised versus private trade).

<sup>2</sup>Gromyko and Riauzov, Soviet Trade during 15 years, (R), 1932, p. 17.

<sup>3</sup>Nikolin, op.cit., p. 62.

In this connection it is also interesting to observe that while in the three years 1923/24 until 1925/26 urban retail turnover rose by 10 per cent only, rural trade turnover (including wholesale operations) more than doubled.<sup>1</sup>

It would thus appear that the private retailer transferred his base to a territory where he was not likely to be ~~met~~<sup>meet</sup> with such ~~serious~~ opposition and ~~with~~ so many restrictions as in the towns.

The principal commodity-group retailed by the private merchant in those days was textiles which came to about one-seventh of the private trade turnover; another important commodity-group was groceries (about one-fifth); meat and game made up nearly a quarter of retail dealings (but only 6.5 per cent of wholesale transactions which were chiefly in livestock).

What was the mental make-up of the new class of private traders, the "NEP-men"? - ~~An good and poignant~~<sup>illuminating</sup> description of their mentality is given by Professor Karlgren:<sup>2</sup> "...those who, when trade was freed, ... appeared in the market...were all...smart folk, but at the same time an exceedingly uncrupulous, crooked species from whom any moderation in the profiteer's appetite would be the last thing to be expected. ... the nepmen have to be pardoned if they considered it not worth while to try to be better than their reputation. And, moreover, there was the fact that sound and sterling business methods were incompatible with the practical conditions that Bolshevism gave to

<sup>1</sup>Nikolin, op.cit., p. 63.

<sup>2</sup>Bolshevist Russia, London 1927, pl. 140.

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private traders. ... Their motto, then, must be: -as quick and large profits as possible, and no work with an eye to a distant future."

It was obvious that this rapacious profiteering of the private retailer, manifesting itself in uncounted examples of speculative abuses, was in itself a sufficient cause for the intervention of the Authorities who were too short-sighted to see that many of the undesirable practices of private retail trade were due to the conditions of its economic, social and legal modus vivendi.'

#### Private Commercial Capital.

During the period of War Communism private commercial capital was extremely scattered but it nevertheless provided the basis on which private trade made its appearance in the market after the NEP had been proclaimed. This new trade apparatus was extremely insignificant and primitive in size and equipment but owing to the pre-occupation of the State with the ~~restoration~~ of industrial "key-positions" and the red-taped incompetence of the co-operatives, the working conditions turned out to be very favourable to the private merchant. Industry, especially that of a local character, preferred a swift marketing of its products to a protracted sales-operation via the provincial Torgi. This situation accentuated the process of the "selling out" of industrial products at low prices and facilitated thereby the formation of private commercial capital. Moreover,

/Comp. ch.: Socialised versus private trade.



by means of all kinds of fraudulent practices and because of their close contacts with the well-to-do peasants, the private traders managed, in a relatively short time, to concentrate in their hands considerable stocks of consumable goods, grain and agricultural raw-materials (like cotton). The commercial operations in raw-materials were particularly profitable and favoured the formation of private commercial capital. Last but not least, the stronghold of the private merchant in the money market and the extreme dearth of commercial credit-facilities as provided by the State, intensified private commercial accumulation.

Many Soviet economists very soon became alarmed by this situation. They warned the Government not to let this state of affairs go too far, lest the private capitalists secured too influential a position and thus exceeded the economic functions that had been assigned to them by the New Economic Policy.

Several surveys of the activity of private commercial capital were undertaken during the first years of the new era; the size of private accumulations was estimated in 1923 at 300 million gold roubles (Larin and Preobrazhensky) and at 450-500 million gold roubles in 1924/25 (Zhirmunsky). For the purpose of comparison we may point out that before the World War Russian commercial capital amounted to about 3,400 million gold roubles. According to an enquiry of the Commissariat for Trade prepared at the end of 1925 private commercial capital was

apportioned among the different types of private commerce thus:

Wholesale trade	33 per cent
Semi-wholesale and large retail trade	50 " "
Retail trade	12 " "

It is to be expected that, considering the semi-permanent and migratory nature of private commerce, the circulation of its capital was rather rapid, much more so than that of the unwieldy State and co-operative trading. According to Larin the net profits of private capital in 1925 were 100 million gold roubles, the initial capital for that year having been assessed by Larin at 350 million gold roubles.

Such is a brief survey of private trade under the New Economic Policy.

CHAPTER V  
STATE TRADE

Autonomy of State industry and the substitution of centralised supply and distribution by free exchange of goods made the creation, by the State, of a commercial apparatus of its own imperative. The weakness of the co-operative movement and the political and social stigma attached to private middlemen as well as the determination of the Communists "to learn how to trade" provided an additional impetus to the growth of State trade.

The main organisational forms of State trade were the Trusts and Syndicates on the one hand and Torgi on the other. We may conveniently describe them in turn.

### Trusts.

Practically all State-owned industries were organised into Trusts. With their European "prototype" they had hardly more in common than the name which was merely supposed to convey the strong connection and contact between the State and these new economic agencies which held a certain group of State industry "in trust".

The trustification of Russian industry began as early as July 1921 and the most intensive period of Trust building was between December 1921 and the following March.<sup>1</sup> By that time the former 59 Glavki of the Supreme Council for National Economy (V.S.N.Kh.) had been liquidated and replaced by 16 central boards

<sup>1</sup>For details Cf. Dobb, Russian Economic Development etc., op.cit., p. 201, 202, 204; also pp. 196 et seq.



which were charged with the carrying out of the industrial reorganisation and the supervision of the Trusts. These were endowed with the powers of operating in the market, both as far as the purchase of raw materials and the sale of their products was concerned. Thus, while the industrial managers of the Trust's component parts concentrated on all the various matters affecting production, the Trust administration (supposed to be working on a "commercial basis") co-ordinated the productive activities of the given group of industries with reference to the requirements of the market and thus controlled all commercial dealings and determined the commercial policy to be adopted.

It has already been explained that the position of the trustified Russian industry turned out to be extremely precarious on account of acute shortage of circulating resources and that the first appearance of State industry on the market partook of the nature of a cut-throat competition between the different Trusts. So great was their hunger for circulating capital that they began to set up branches and retail establishments (small shops and stalls), especially in the bigger towns, and even went so far as to engage the services of hawkers in order to obtain<sup>raw</sup> material and precious foodstuffs from the countryside.'

The importance of Trusts as organs of State trade, however, declined rapidly with the emergence of the Syndicates.

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/ Cf. Dobb, *ibid.*, p. 210.

### Syndicates.

The proximate cause for the formation of the Syndicates was the realisation that the "razbazarivanie" of State industry could not go on for ever and that in order to stop it it was vital to set up a really efficient commercial organisation of the growing industry. From a wider point of view the commercial Syndicates were the inevitable outcome of the division of labour within the new forms of industrial organisation. The more industry expanded, the more complex became the problems of internal co-ordination. These tasks soon required so much attention and care that the Trusts were forced to enlarge and subdivide their scope of operations. Accordingly, they began, in the spring of 1922, to form Syndicates which took over all the duties connected with the supply of the factories with raw materials etc. and the sale of the products in the market.

In the year 1922/23 20 of the most important Syndicates were formed (e.g., Textiles, Matches, Salt, Leather, Tobacco, Coal, Oil, Fats etc.) In some cases they inherited part of the property of the old organs of War Communism, e.g., the Textiles Syndicate from the Glavtextiles, the Leather Syndicates from the Glavleather etc.,<sup>2</sup> a clear indication of the direct link between the distributive apparatus under War Communism and the NEP's State trade organisations.

On the whole it seems that the Syndicates were

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<sup>1</sup>The independence of the Coal and Oil Syndicates was merely formal. In effect they represented commercial offices of the planning department of the V.S.N.Kh., the Chief Fuel Department. (Liashchenko, op.cit., p.235.)  
<sup>2</sup>Ibid.

were formed by the spontaneous action of the Trusts themselves. This is most noticeable in the case of the Textiles Syndicate which had to deal with a wide and fluctuating peasant market. But there were cases where the formation of the Syndicates was ordered from above, as e.g., in the case of the Salt Syndicate (which traded in a product whose regulation was clearly essential).

The Syndicates did away with the unco-ordinated market-operations of the Trusts. There was no longer the need to earmark a part of the Trust's capital for the purpose of defraying the cost of marketing. This was now done by the Syndicates which were, in effect, a union of Trusts, possessing their own capital subscribed by the various Trusts concerned and charged by these with the different commercial functions. These seemed to have varied considerably<sup>2</sup> and the degree of the Syndicates' dependence on the Trusts, too, grew stronger or weaker in accordance with changing market trends and conditions.

The principal economic task of the Syndicates consisted in the creation of a State trading capital. The pooling of the commercial funds of the Trusts in the capital funds of the Syndicates and the consequent reduction of trading oncost economised resources. But even so, trading capital of the State remained totally inadequate and the growth of the Syndicates was curbed by this shortage. The Syndicates tried to overcome this deficiency by various artificial means, like

<sup>2</sup>Nevertheless many Trusts continued to sell their products behind the back of the Syndicates. (Cf. Nikolin, op.cit., p. 24). <sup>2</sup>Ibid., p. 26, Liashchenko, op.cit., p. 238, Dobb, op.cit., p. 216.

the raising of prices and the retaining of commercial profits. To judge by the figures supplied by Liashchenko (op.cit., p. 240) the ratio between total production and the capital of the Syndicates was extremely unsatisfactory; moreover commercial capital was distributed unevenly between the different industrial groups, so that a balanced process of industrial expansion was hampered.<sup>1</sup>

Under these conditions the credits granted to the Syndicates by the Gosbank and the Prombank<sup>2</sup> were extremely helpful, but not sufficient to remove the difficulties from the realisation of production by the Syndicates and to enable them to make possible an extension of production by ever increasing sales.

Nevertheless, even in the beginning of the process of syndication the beneficial effects of this new type of independent and specialised commercial agency became manifest. In the measure that the Syndicates concentrated the marketing of the bulk of industrial production, the State strengthened its regulative grip on the market, for it was now in a position to influence the flow of goods, to transfer goods from one district to another, to determine trade routes, to assure an ~~uninterrupted~~ supply of the Trusts with raw materials etc. Without the help of the Syndicates the State could never have conquered the market.

By 1926/27 100 per cent of the Oil and Salt industries were syndicates, 94.5 per cent of Textiles, 93.1 per cent of the match industry and 47.9 per cent of the makhorka<sup>3</sup> industry.

<sup>1</sup>Op.cit., p. 240. <sup>2</sup>Prombank is the long term credits bank for industry. For details cf. Liashchenko, op.cit., p. 240. <sup>3</sup>Inferior brand of tobacco, popular in Russia.



When the most pressing financial difficulties and organisational shortcomings<sup>1</sup> had been overcome, the volume of transactions carried on by the Syndicates began to rise rapidly: on the average it doubled in about two years and in some commodity groups (silk, linen, hemp)<sup>2</sup> it exhibited even higher rates of growth. Data<sup>3</sup> of the turnover of 14 Syndicates are available which show the following development (in 1000 roubles):

1922/23	441,172
1923/24	790,099
1924/25	1,565,525
1925/26	2,621,638
1926/27	3,579,696

In the first years of the Syndicates' existence the market was characterised by a hypertrophy of central markets and an extremely poor service of the provincial districts by the State.<sup>4</sup> This was rectified when the decentralisation of the system was decided upon and thenceforward the volume of transactions in the provinces began to rise at a faster rate than in the cities.

The problem of conquering the market, not merely in the political sense of ousting the private trader but also in the technical sense of actually establishing permanent contacts with the consumers, presented itself to the Syndicates before long. The decentralisation of the system and the movement towards the provinces was the first step in the desired direction. But it was also essential to establish contacts with the retailer. One obvious solution consisted in the building by the Syndicates of a

<sup>1</sup>There was an initial tendency to set up big and unwieldy Syndicates. Upon the recommendation of the XII Party Congress (April 1923) the system was overhauled and smaller units were set up. <sup>2</sup>Nikolin, op.cit., pp. 27-28. <sup>3</sup>Internal Trade during 10 Years, op.cit., p. 208. <sup>4</sup>Economics of S.T., op.cit., p. 82.

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retail mechanism of their own. But, in point of fact, the importance of the Syndicates always lay in their hold on wholesale<sup>trade</sup>. Particularly in the first years of the Syndicates' functioning their retail network was extremely insignificant.<sup>1</sup>

As regards the contacts with the consumer the Syndicates lived through different phases which can be distinguished by the different methods employed.

In the first period <sup>there is evident</sup> ~~we can register~~ a strong participation of private middlemen in the work of the Syndicates owing to weaknesses in organisation and finance. Then followed the attempt of the Syndicates to transfer part of their marketing work to the co-operative centres (which were, at that time, entirely unprepared to tackle the tasks so entrusted). Later followed a phase, when the Syndicates tried to bring about a short-cut contact with the consumer by means of direct dealings with the lower co-operatives, over the heads of the Co-operative Union and the local centres. These attempts apparently made for a further local decentralisation of the apparatus of the Syndicates.<sup>2</sup> From 1925/26 onwards the main flow of goods of the Syndicates was marketed by means of the so-called general contracts<sup>3</sup> with the co-operative centres and the bigger local co-operative unions as well as through the system of the Torgi which latter we shall now proceed to discuss.

<sup>1</sup>Nikolin, op.cit., p.30.

<sup>2</sup>Ibid., p. 28; cf. also Great Soviet Encyclopaedia, Vol. XI, p. 787.

<sup>3</sup>I.e., long-term contracts regarding future production and deliveries.

The Torgi which can best be defined as local wholesale enterprises of the State trading system, began to be formed at the time of the creation of the first **Trusts**. The biggest Torgi, like the Mostorg and the Petrotorg, commenced their operations in October-November 1921. The Torgi were organised on a provincial basis and were subordinated to the Provincial Governing Bodies, the so-called Gubtorgi (which, in their turn, were departments of the Provincial Councils of National Economy). Already in the first financial year of the NEP the number of the Gubtorgi reached 48; in 1922/23 this figure went up to 78 and in 1926/27 the Council of Local Trade counted 71 Regional and Gubtorgi which figure did not include the smaller district and local Torgi!

The main function of the Torgi was to serve the interests of the local and rural industry by the purchase of raw materials, fuel etc., and by disposing of its products in the market, a task which (apart from its local limitations) was almost identical with that of the Syndicates, with the possible difference that in the case of the Torgi commercial activity was perhaps more a means to an end than an end in itself.

Torgi were also set up in outlying districts (e.g., Central Asia, Far East, Siberia etc.) where local industries were almost absent, so that attention to their needs was superfluous, and where the co-operatives were too weak to furnish the population

with articles of ordinary use. These Torgi were almost entirely confined to the local market and were characterised by a high "specific weight" of retail operations in their turnover (about 50 per cent). The volume of transactions handled by this category of Torgi came in 1926/27 to only about 27 per cent of the Torgi's total turnover. The representative category of Torgi concentrated its efforts on the local industry and was chiefly engaged in wholesale operations.

The volume of transactions of the Torgi was constantly rising, the rate of growth being particularly intense in the years 1923/24 - 1924/25 and slowing down somewhat in the following two years.<sup>1</sup> In 1923/24 the turnover amounted to 470 million roubles (100 %), in 1924/25 to 833 million roubles (177 %), in 1925/26 to 1,272 million roubles (270 %); in 1926/27 it reached the figure of 1,336 million roubles or 284 per cent as compared with 1923/24.<sup>2</sup> Towards the close of the NEP the Torgi controlled about 16 per cent of the total commercial turnover of the U.S.S.R.

The Torgi (belonging to the representative category) soon started to transfer their operations beyond their local boundaries and in 1925/26, according to figures supplied by Nikolin, <sup>(op.cit., p.31).</sup> they made more than half of their purchases and sold nearly 40 percent of their goods outside their assigned areas. In 1926/27 a certain diminution of these extra-regional operations took place, a consequence, presumably,

<sup>1</sup>Economics of Soviet Trade, op.cit., p. 77. The slowing down was due to the growth of the co-operatives and the Syndicates.  
<sup>2</sup>Internal Trade during 10 Years, op.cit., p.225.



of the resolution of the Council for Labour and Defence, passed on August 18, 1926, which underlined that the main function of the Torgi should be to serve the local non-syndicated industry and the kustari and <sup>that</sup> it was advisable for the Torgi to limit the range of their work to their own areas.

If one analyses the assortment of commodities in which the Torgi deals, its close connection with the consumers' goods market becomes apparent. According to data for the year 1926/27 more than 50 per cent of the goods were articles of common demand (e.g., 24.4 per cent textiles and 24.5 per cent foodstuffs); of the remainder only 40 per cent were destined for productive and technical uses.

The relations of the Torgi with the Syndicates and other agencies of State trade as well as with the co-operative system were rather complicated owing to the absence, especially in the early period of the NEP, of a sufficiently clear delimitation of the functions of the various organisations. Besides, there was always the necessity to adapt oneself to the laws of the market. As long as competition remained strong and but little interfered with, so long as commercial autonomy was allowed to foster egocentric tendencies within the different economic branches of the national economy, the interests of the different channels through which the flow of goods, producers' and consumers', was directed, were bound to clash.

Although the Torgi supplemented, to some extent,  
Economics of Soviet Trade, op.cit., p. 77.

the work of the regional branches of the Syndicates, thus adding to the efficacy of the system as a whole, friction between the Torgi and the Syndicates was inevitable, so long as the principle of competition between State enterprises was kept intact. The same applied, as far as retail operations were concerned, to the relations of the Torgi with the co-operatives.

It is interesting to observe that when the peripheral network of the Syndicates began to come in contact (and conflict) with the Torgi, the latter began to change their organisation, breaking away, more and more, from the Provincial Departments of the V.S.N.Kh. and turning into share-holding joint stock companies sanctioned and registered by the Authorities!

The Torgi remained essentially wholesale trading agencies. From the point of view of commercial policy their significance lay in the displacement of private wholesale trade. Consequently their turnover with the private retailer continued to be considerable until the latter's disappearance.<sup>2</sup> The Torgi were, in fact, specially entrusted with the duty of influencing the private market by supplying the private retailer over the heads of the private wholesale merchants.<sup>3</sup>

#### Other State trading organisations.

Although the Syndicates and the Torgi were the

<sup>1</sup> Great Soviet Encyclopaedia, Vol. II, p. 109. The shareholders were public bodies.

<sup>2</sup> For figures cf. Nikolin, op.cit., p. 34.

<sup>3</sup> Neiman, op.cit., p. 112.

~~the~~ major forms of State trade under the NEP there were other types of State trade organisation which are worthy of mention in so far as their description reveals an unexpected and extraordinary diversity of State trade.

There was, of course, all the time, a continuous evolution of the new forms of organisation. New agencies were being set up daily and scrapped or fused with others after a brief existence. In the beginning of the period under review the decreed enthusiasm for commerce seems to have got hold of the various Government departments. The old Ministry of Supplies, the Narkomprod, was not liquidated until 1924 and up to that time it included ~~quite a~~ <sup>a considerable</sup> number of trade agencies (for chalk, salt, guts, milk, fish, etc.). After the Commissariat's liquidation these various trade agencies were reorganised and their supervision taken over by the newly formed Narkomvnutorg (see below). The Ministry of Agriculture, the Narkomzem, also set up different trading organs of various types (Syndicates and share-holding companies) and through them established contacts with the co-operatives. Of the remaining Commissariats, the market dealings of the Narkomzdraw (Health) and the Narkompros (Education) are noteworthy. The Municipalities, likewise, were engaged in commercial transactions and the Gosbank took a very prominent part in (wholesale) trading. The variety of operations at that time kept within the "best capitalist traditions". Owing to the monetary difficulties of the Syndicates the Bank received on numerous occasions

the exclusive right to the local realisation of their commodities. (This happened, e.g., in the cases of sugar and oil). Besides, the Bank was frequently compelled to enter the market in order to dispose of mortgaged goods which had been forfeited. Furthermore, before the successful completion of the Monetary Reforms, the Bank engaged in trade for the purpose of saving its capital from the effects of inflation. But it also carried out purely commercial operations, such as the purchase of grain.

Broadly speaking and with the exception of the Gosbank (which, obviously, is a special case) the following forms of State trade existed during the NEP in addition to the Syndicates and the Torgi: (1) share-holding or joint stock companies; (2) pure State retail organisation and (3) what is very inadequately translated as "commercial enterprises". The quantitative importance of these various agencies in the market was at no time at all appreciable, but they all had specific tasks to perform in serving the interests of different economic branches.

The share-holding type of commercial organisation arose because of the economic need for concentrating the assets of different Government departments which could not be fitted into a Trust or a Syndicate. This had to be accomplished by special semi-independent organs. Besides, there was the urgency for accumulating additional resources and the share-holding company was considered the most suitable form from this point of view. The first share-holding companies began to



spring up in 1923 and their growth went on uninterrupted during the ensuing years. At one time the "mixed" companies became fairly prominent, "mixed" in the sense of their capital being composed of Government funds and private resources of predominantly foreign origin!

Not only was the form of the share-holding companies varied, but their tasks were likewise highly manifold. It can be said, however, that they concentrated mainly on the collection of raw materials for the different branches of the national economy (wool, linen, tobacco, rags, etc.). The purely commercial companies of this kind were of a universal nature, the statute covering the whole range of commercial operations and granting them fairly wide powers of independent action.

The State retail organisations were usually separate and relatively independent commercial enterprises within the legal framework of share-holding companies. At this stage it seems appropriate to say a word or two about State retail trade in general during this period. We know that State trade during the NEP was essentially wholesale and that the bulk of "socialised" retail trade was carried on by the consumers' co-operatives. But right from the beginning of the NEP the different economic organs of the State, especially those of industry, did engage in retailing as well. They set up shops for the purpose of selling

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This "mixed" type was particularly common in export-import trading enterprises; they were mainly monopoly enterprises for the sale of imported goods and for the exportation of domestic produce. Some of them traded in particular goods like grain ("Exportkhleb") and timber ("Lesoexport") or were of a more general character ("Gos-torg"). Though separate legal entities, they remained under the general supervision of the Commissariat for Foreign Trade (Narkomvneshtorg).

their produce directly to the consumer. This was necessary because the co-operative apparatus was weak and unable to acquaint the industry with the demands of the market, the velocity of goods-circulation etc. Besides, the co-operatives were not particularly reliable as regards their monetary commitments. By setting up <sup>its</sup> ~~their~~ own retail shops industry established a very valuable direct contact with the market and insured a steadier flow of monetary income, so essential in those days of financial strain and depreciating currency.

Then there were occasionally special retail undertakings of the State such as the G.U.M., (i.e., the organisation of State Universal Stores), but such were rare. The year 1924/25 seems to have been the peak year for this type of State retailing. Subsequently, the co-operatives began to take over, more and more, the retail functions of the "socialised sector". The State retailing that remained underwent a certain re-orientation in the sense that it became more independent and specialised. Legally, it assumed the form of share-holding companies formed by the Syndicates, so as to be able to ~~the~~ devote the maximum of attention to retailing.

The reasons for the formation of these retail trading companies were often purely local considerations, but the desire, on the part of the State, to "conquer" the retail market was constantly present. After 1926/27, in consequence partly of the resolution passed by the February Plenum of the C.P.S.U.(B). (1927) and the resolution of the S.T.O., dated August 26, 1927

concerning the relations of the co-operative and the State trade systems, there was a tendency for the elimination of "parallelism" in the work of co-operatives and State retailing. The existence of State retailing had to be justified in every case, say, by local weaknesses of the co-operative machinery (e.g., in the outlying national republics). State retailing, <sup>such as there was</sup> tended to concentrate in the Torgi and was, on the whole, limited to specialised commodities like technical equipment and building material whose marketing called for initiative as well as for careful and specialised handling. Only very few industrial departments retained their own retail shops, e.g., the Food Trusts (confectionary, wine etc.) Necessaries, however, were, as a rule, being retailed by the co-operatives. Only the large Universal Stores, the Univermagi, continued to thrive and to grow. They were usually formed in the more important centres as model shops, organised by the Local Authorities and run by, or on behalf of, them. But the share of State retailing in the "socialised sector" and in relation to the total turnover of the country continued to fall, as may be seen from the following table (taken from the Great Soviet Encyclopaedia, Vol. XVIII, p.370).

	1925/26	26/27	27/28	28/29	29/30 (Plan)
Turnover of State retail trade in mil. roubles	1,860	1,946	1,868	2,199	2,155
Expressed as a % of total turnover	15.5	14.4	13.1	14.3	12.8
Expressed as a % to the turnover of the socialised sector	27.2	23.0	18.0	17.2	14.3

Turnover  
etc. etc.

Expressed as a  
%% of total  
turnover of  
State trade

21.9 19.4 15.5 14.4 11.9

The "commercial enterprises" were another form of State trade during the NEP, noteworthy, not so much for the volume of their transactions, but for their widespread network of shops. We have drawn attention to the trading activities of the various Commissariats and departments. These operations were handled by the "commercial enterprises" with funds allotted to them by the departments concerned. The Narkomzdrav, e.g., maintained a large number of chemists' shops; several publishing enterprises (Gosizdat, for instance) carried on a book trade of their own.

#### Regulative organs.

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The first centralised trade department to be set up after the liquidation of War Communism was the Central Commercial Department of the V.S.N.Kh. which had evolved from the V.S.N.Kh.'s Central Board of Supplies. The Central Commercial Department was originally supposed to combine both operative and regulative functions, but it was soon found that this fusion of functions was impracticable. A special section for the regulation of trade only was accordingly created within the Department. This solution, however, proved likewise unsatisfactory, since the Central Commercial Department was concerned merely with the commercial transactions of enterprises under the purview of the V.S.N.Kh. The first general



centralised Government department for the regulation of trade was the Commission for Internal Trade (Kommvnutorg) attached to the Council for Labour and Defence and formed in the spring of 1922. It was entrusted with the unification and codification of commercial legislation as well as with the supervision and the study of trade and trade turnover under the completely changed economic conditions. Meanwhile, the Narkomprod was still in existence and, as we know, it was engaged in rather extensive commercial activities; it was liquidated in April 1924 and the Kommvnutorg was replaced by a new All-Union Commissariat for Internal Trade, the Narkommvnutorg. This transformation was effected by virtue of the decree of the Central Executive Committee of the U.S.S.R., dated May 9, 1924. The functions of the new Commissariat were wide and varied and it would go too far to discuss them in detail. Its basic tasks were the following: the planning of internal goods turnover and its regulation within the whole territory of the U.S.S.R.; furthermore, the direct administration of State enterprises of All-Union importance that had been transferred to the Commissariat; the elaboration of the general rules concerning the collection and the realisation of commodities: the collaboration with the Narkomfin (Commissariat of Finance) in the financing of trade and in questions pertaining to taxes, insurance, transport etc.; the registration of commercial enterprises, the framing of an All-Union commercial legislation and the regulation within the limits determined by the

S.T.O., of wholesale and retail prices of a certain number of goods.

The Narkomvnutorg functioned until the end of 1925 when, by a decree of the Central Executive Committee (dated November 18, 1925), it was united with the Commissariat for Foreign Trade (Narkomvnesh-torg) into a general Commissariat of Trade (Narkom-torg). The reasons for, and the implication of, this unification will be discussed in another context. The decree which ordained the fusion stated that this was rendered unavoidable owing to the growth of internal commerce and the extension of trade relations with the outside world. The unification was supposed to strengthen the economic bonds between town and country - presumably by taking into account the interests of the village in the distribution of the "productive" imports and <sup>Their</sup> ~~its~~ structure (agricultural machinery and implements)-and to make possible the elaboration of a unified plan of trade turnover, comprising the exchange between town and country as well as that with the world economy. These were indeed gigantic tasks and, in point of fact, the difficulty of adjusting import plans and the plans of internal trade remained. By virtue of a decree, passed in 1926, the Narkomtorg as an All-Union organ, was granted the right to influence decisively the price policy for the whole of the U.S.S.R. The task of grain collecting which up to 1925 used to be performed by the Provincial Commissariats for Internal Trade, was, however, not transferred to the newly formed unified Narkomtorg, but, as we know, to in-

dependent State trading organisations (Khlebprodukt, Gosstorg), the Centrosoyuz and the Gosbank. Thus, in the matter of agricultural collections at least, the attitude of the Narkomtorg remained one of non-interference and its activities were limited to general supervision. On November 11, 1930 the direction of the whole of the internal trade was placed in the hands of the new Commissariat for Supplies (Narkomsnab). But its description belongs to another phase in the history of Soviet trade.

EXCURSUS I TO CHAPTER V

AUXILIARY AGENCIES

## AUXILIARY AGENCIES

It was to be expected that the revival of trade generally and of State trade in particular would have called into being certain subsidiary institutions designed primarily to facilitate trade operations. And, since these institutions were of a public nature, it seems fitting to include them in a survey of State trade.

Commercial Banks and Commercial  
Credit Institutions.

Trade, by its very nature, is impossible without credit and we have already pointed to the urgency of this problem under the extremely precarious economic conditions in which the country found itself after the termination of War Communism. One of the main functions of the Gosbank, founded by virtue of the resolution of the All-Russian Central Executive Committee, dated October 13, 1921, was the crediting of trade turnover. The original intention was apparently to grant the Gosbank the exclusive right of commercial crediting. This was quite in keeping with the still vigorous "tradition" of centralism in those days, but very soon it became evident that the Gosbank was not able to cope with the heavy strain put on it. Decentralisation and specialisation of credit <sup>ere</sup> ~~was~~ consequently decided upon and actually carried out: in February 1922 the Consumers' Co-operative Bank ("Pokobank") was instituted, to be reorganised a year later so as to comprise all types of co-operative enterprise ("Vsekobank"). The



Russian Commercial-Industrial Bank (Torgovo-Promyshlennyi Bank or Prombank) was inaugurated on October 19, 1922, as a share-holding concern. Around these centres of commercial credit a system of provincial banks began to spring up.<sup>1</sup>

In the first years of the NEP the absolute extent of commercial credit was very small.<sup>2</sup> In view of the acute dearth of industrial capital the earmarking of funds for the use of trade was not easy of achievement. But, so rapid was the development of trade of all kinds that after some time a considerable (though absolutely very inadequate) proportion of the total volume of credit was assigned to trade. The methods of commercial credit were similar to those employed in other countries (discounting of bills, long-term obligations, credit against goods etc.)

#### Commodity Exchanges.

Another important auxiliary organ of State trade (and to some extent of private trade) was the Commodity Exchange. The first Commodity Exchange under the Soviet system was that of Saratov, opened in July, 1921. Commodity Exchanges of Viatka, Rostov, Moscow and other cities followed. The first period of their growth was chaotic, until their legal status was clarified. This was done by a decree of the S.T.O.

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<sup>1</sup>We cannot possibly record all the aspects in the development of Soviet credit during the NEP period (e.g., agricultural credit, export credit etc.), but it may be mentioned in passing that the financial interests of private trade were looked after by private Mutual Credit Associations which functioned under close supervision by the Authorities up to their final legal suppression in 1929. They never attained any importance, however.

<sup>2</sup>According to Liashchenko (op.cit., p. 283) commercial

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dated August 23, 1922, which, by declaring the Exchanges to be extra-departmental public institutions, ended the controversy as to their exact nature and functions in trade.<sup>2</sup> The legal status of the Commodity Exchanges, as they existed at the time of the NEP, can perhaps best be compared with public corporations of the British type: i.e., they were neither private nor governmental organs, but set up by different organisations and persons on a voluntary basis, not in the narrow interests of their members but for the benefit of the public. The Authorities retained the right of general supervision only. The Governing Body was composed of State and co-operative organisations and private enterprises and sometimes even included.<sup>3</sup> As a rule, State and co-operative organs had equal rights, but after the consolidating legislation of 1925 there was a certain diversity in the manner in which the statute of the different Commodity Exchanges was drawn up.

The different administrative organs of the Exchanges were as follows: (1) General Meeting of Members; (2) The Commodity Exchange Committee; and (3) the Presidium. For the purpose of price-fixing the so-called Quoting Commissions were formed by the Committee, composed of members as well as of prominent and habitual dealers. The settling of disputes arising out of the business transactions was entrusted to the

(continued from previous page): credits of the Soviet banks in the first year of their operation did not exceed 3-8 million pre-war roubles. Before the war bank credit for commercial purposes was 700 times as much. / For details on Commodity Exchanges cf. Great Soviet Encyclopaedia, Vol. 6, pp. 382 seq. and Lezhava, Internal Trade in 1923, Moscow 1924 (R).

<sup>2</sup> Prior to the decree the Exchanges appear to have been regarded as co-operative institutions.

<sup>3</sup> This was rare, however; in any case the private members were invariably in the minority.

Arbitration Commissions, the litigants having the right of appeal to the ordinary judicature; the constitution of these Commissions was governed by special instructions issued by the S.T.O. For the purpose of registering dealings outside the Exchanges, Registration Bureaus were created in conformity with the respective order of the Narkomvnutorg. The observation and analysis of the transactions and general market research was carried out by the Statistical and Economic Department of the Exchanges.<sup>1</sup> In addition, there existed the Brokers' Association, whose duty it was to fulfil the clients' orders and to act in a consulting capacity, but also to watch over the nature of the transactions and to see to it that they conformed to the then existing commercial legislation and <sup>to</sup> the State's commercial policy. Some Exchanges organised so-called Operative Bureaus which had the special duty to collate all available information concerning the demand for, and supply of, various merchandise.

The volume of transactions of the Commodity Exchanges rose by leaps and bounds judging by the official statistical data; these were inflated, however: according to an order issued by the S.T.O. on November 1, 1922, all Government organs and enterprises were compelled to register all their dealings with the Registration Bureaus of the Exchanges, irrespective of whether they were carried out inside ~~or~~ <sup>or</sup> outside the Exchanges. In fact, the yield from fees for the registration of outside transactions soon exceeded the collection of ordinary fees.

<sup>1</sup>For details of other auxiliary departments cf. Great Soviet Encyclopaedia, Vol.6, p. 381.

Here are some figures relating to the volume of internal transactions only (taken from the Great Soviet Encyclopaedia, Vol. 6, p. 377):

Years	Moscow C.E.	70 Provincial C.E.	Total of 71 C.E.	
	(In million roubles)			
1922-23 :	435.1	:	203.6	:
23-24 :	791.7	:	756.7	:
24-25 :	2,056.3	:	1,875.7	:
25-26 :	2,855.9	:	2,432.8	:
			638.7	:
			1,548.4	:
			3,923.0	:
			5,288.7	:

From an analysis of these statistics according to the different categories of dealers it appears that State trading held the predominating position right from the beginning and that in course of time the transactions of the co-operatives greatly increased in importance with the "specific weight" of private and "mixed" transactions constantly declining. Thus, it would seem that the operations of the Commodity Exchanges reflected, fairly accurately, the general trends of trade in the country as a whole.

Table

The main significance of the Commodity Exchanges lies perhaps in their general services rendered to the country's commerce, like consultation, market-regulation and research (bringing out the relations of demand and supply). The scope and magnitude of this kind of work - quite apart from the much wider measure of Government supervision - distinguishes the Soviet Commodity Exchanges from analogous institutions in capitalist countries.

The "indirect" functions of the Exchanges were bound to come to the fore, as "socialised" trade grew and the inter-relations between State commercial

enterprises and the co-operatives were more and more developed along contractual lines; for this meant that the "intermediary" services of the Exchanges were no longer required to the same extent.

But, while the "intermediary" functions in the industrial market (which was much more easily brought under the sway of Government control) soon lost in importance, they remained decisive and, from the point of view of the State, most useful in the organisation and regulation of the agricultural market. This, incidentally was quite in keeping with pre-war conditions when the Commodity Exchanges had been, in the main, concerned with agricultural products. The concentration on agriculture inevitably produced a certain degree of departmental specialisation, but in principle and in contradistinction to their capitalist contemporaries the Soviet Commodity Exchanges remained, on the whole, universal in character.

It may be added that the market researches and the statistical investigations undertaken by the auxiliary organs of the Exchanges proved of the utmost value to general trade statistics. Without the data supplied by the statistical and economic departments of the Exchanges, the records <sup>regarding</sup> the volume of wholesale trade under the NEP would have been much more incomplete than they actually are.



EXCURSUS II TO CHAPTER V

THE PROBLEM OF STATE TRADE CAPITAL

Trading requires capital of its own in the form of the goods themselves and in the shape of additional liquid means (money, instruments of credit, etc.) for the purpose of attending to the merchandise and also for the dispatch of the commodities to the consumer. In an ordinary exchange economy the source of accumulation consists in the commercial profits that accrue to the trader for his services. Historically, commercial capital was the originator of industrial capital, in so far as the trader and the producer used to be one and the surplus resulting from the exchange operations was invested in production. With the growth of the exchange economy a division of functions took place with the result that commercial capital became, not an independent, but a separate and distinct economic category.

In Soviet Russia this process was reversed in so far as industrial capital became the source of the State's commercial capital. In the beginning of the NEP it appeared that private trade was small and elastic and rather inexpensive to run, so that the concentration of the scattered reserves and surpluses of goods, valuables and money (partly carried over from <sup>re</sup>pre~~re~~volutionary days) <sup>as</sup>~~were~~ sufficient at least to make a start. For the State the task was much more complicated. While private enterprise had, in the main, been re-admitted only to the domain of exchange, the State had to solve the additional difficulty of putting the ~~derelict~~ productive

apparatus into operation and at the same time to attend to adjusting it to the newly created economic environment.

The problem of industrial capital was relatively easier to tackle since the new Trusts had at least inherited the old equipment. But even so industry had to resort to the "razbazarivanie", in order to obtain the requisite circulating funds. When the sales-crisis of 1922 had been liquidated, the conditions of production improved owing to various factors which we have discussed. Industry was soon confronted with the problem of earmarking part of its capital resources for the facilitation of its market transactions. First, this was done by advancing credit to its customers.<sup>1</sup> When a special State trading apparatus began to emerge, the problem became one of creating special commercial funds for the exclusive use of the new trade organs. This was done partly via the Budget, both central and local, but it appears that the direct contributions of industry to the syndicated capital played a bigger rôle than budgetary grants. With the spread of commercial joint-stock companies all other resources of industry that were available to trading were gathered together. As time went on (and especially after the Monetary Reforms) the various credit institutions began to participate in the formation of commercial capital.

The capital of the Torgi was first made up, in strict ~~ad~~herence to the traditions of War Communism,

<sup>1</sup>Disposal over amortisation funds enabled industry to do so. (Cf. N.N. Vinogradsky, Problem of Commercial Capital, Planovoe Khoziastvo, 1925, No.1, p.109)

almost exclusively by administrative grants of local organisations, i.e., the Provincial Councils of National Economy. On October 1, 1923, out of a total of 18.6 million roubles 17.6 million roubles or 94 per cent were put at the Torgi's disposal by administrative arrangements. This capital structure was in direct contrast to that of the Syndicates, where, on the same date, the share of budgetary grants in the capital of 17 Syndicates (excluding the Oil Syndicate) amounted to 5.6 million roubles or 28.9 per cent of the total.<sup>1</sup> Later on, when the Torgi assumed the form of share-holding companies, the capital was made up by contributions from local industries and, to a lesser extent, from credit institutions. Still later, when the Syndicates and Trusts had secured a greater degree of financial and market stability, they came to the financial assistance of the Torgi which were set up in outlying districts and national republics. But administrative grants retained their dominating position. On October 1, 1928, the sources of the capital of 48 Torgi were as follows: Commissariats and various local administrative departments - 50 per cent; local industry - 23 per cent; Union industry - 14 per cent; banks etc. - 13 per cent.<sup>2</sup>

The composition of capital belonging to joint-stock trading companies was more motley, but, as in the case of the Torgi, budgetary and departmental grants were most prominent at the beginning (viz.,

<sup>1</sup>/Cf. Great Soviet Encyclopaedia, Vol., p. 371.

<sup>2</sup>Ibid.

17.1 million roubles or 71.6 per cent of the total on October 1, 1923). In the ensuing years other organisations replenished the companies' resources.

All these data point to the development of credit centres and of commercial crediting by industry, but it is significant for the financial strain of State industry that, in spite of the growth of industrial production, the total State trading capital was, on October 1, 1925, made up as follows: budgetary grants - 71.4 per cent (these were chiefly in respect of a few but very big trading establishments), contributions of industry - 22.2 per cent; banks - 2.8 per cent; other sources - 3.6 per cent.'

It should be noted, furthermore, that the capital of State trade remained smaller than that belonging to the co-operatives (including the co-operative societies of producers) and was endowed with a less rapid velocity of circulation, the latter fact explaining the relatively few attractions which the trade agencies of the State offered as depositories of loans. In addition, the development of the credit system did not proceed at a pace commensurate with the growth of the national economy.

Altogether, from the view-point of the formation of an adequate stock of commercial capital, the conditions were most unfavourable. The scarcity of capital resources in the country as a whole compelled industry to mobilise and economise to the utmost its internal resources, so much so that on occasions measures were being taken with a view to re-diverting



the grants erstwhile allotted to the trading organisations so as to make them available for industry.

The potentialities of State trade for accumulating sufficient capital resources without help from outside, were extremely limited. It is true that during the period of "razbazarivanie" and <sup>of</sup> the general disorganisation of the market (1922/23) State trade had managed to pocket big speculative profits. But, when, in pursuance of methods to overcome the "scissors"-crisis, the Government decreed an all-round reduction of prices, it thereby impaired the profitability of State trading. Besides, the greater part of such profits as were yielded in the process of exchange and could conceivably be used for the purpose of accumulating commercial capital, had to be handed over to the Treasury. At the same time, the Exchequer ceased to grant fresh long-term loans which were necessary to supplement the stock of trading capital that had to serve an ever expanding volume of merchandise.

What could the trading organisations do under such circumstances? They tried to obtain as much short-term credit from the banks as was available and to extend the practice of being supplied with goods on credit. But clearly these methods could be no more than palliatives.

All these difficulties and adverse conditions taken together produced (in 1925 or so) the "problem of commercial capital" which was extensively debated at the time. The tangible manifestations of the

<sup>1</sup>According to Bliakhov (The Problem of circulating resources in the internal trade of the U.S.S.R., Moscow, 1925) the problem would have arisen in 1923, but for the Mon. Ref

difficulty consisted in the impossibility of moving the whole volume of commodities from the producer ~~to~~ to the consumer and in their uneven distribution in the country. The crux of the problem of commercial capital was thus the disparity between the growth of the volume of commodities and the potential possibilities of its turnover together with, and because of, the non-existence of adequate sources of commercial financing.<sup>1</sup> Several methods of dealing with the problem were advanced. One of them was the so-called "new commercial practice". We have already mentioned the fact that, owing to the pressing needs of industry, a portion of the advances made to trading organisations had to be re-diverted into industry. Now, the "new commercial practice" tried to fill the gaps which had thus been created, by attracting the investment of private capital. On the face of it, this was certainly a very ingenious method. In point of fact, however, private capital refused its co-operation.

Another method of solving the problem, or rather of mitigating it, was of a monetary nature. While credit inflation was condemned, it was suggested ~~to~~ judiciously <sup>to</sup> increase money and credit issues in accordance with the growth of goods' turnover in the country including the commercial funds of the countryside.<sup>2</sup> At the same time, it was held, industry

<sup>1</sup>The position compared very unfavourably with the pre-war situation: in those days the ratio between commercial capital and trade turnover was much more satisfactory. For details cf. S.L. Fridman, Capital Resources of the State trade of the U.S.S.R., Moscow, 1927, (R), p. 142.

<sup>2</sup>But, since the Soviet leaders were highly apprehensive lest these issues should lead to a repetition of the inflationary period they tried to ascertain, as correctly as possible, the real requirements of trade

should develop at such ~~a~~ speed as to leave enough commercial capital to market the finished article when it emerged from the sphere of production. Every slowing down of industrialisation, <sup>however,</sup> ran counter to the political demands of the Party. Industrialisation of the Soviet Union constituted thus the major objection to these and similar suggestions.

Hence, under the then existing conditions, the only solution appears to have been the attempt to increase and foster the internal accumulations of State trade itself. Though these were not considerable, it was pleaded that if they were not claimed by the State, trade could conceivably achieve at least a partial solution of the problem of trading capital (not, of course, in a short space of time, but ~~in~~ a few years). Self-accumulation of State trade would have meant a decrease in the proportion of borrowed capital and would thus have exercised the most salutary influence on the stability of the system and would have indirectly contributed to the smoothing out of market fluctuations. On the other hand it was justly pointed out that, while self-accumulation of the trade organisations could possibly solve the difficulty of how to finance the existing turnover of goods, the increase of trade turnover constantly required additional resources

(continued from previous page): for circulating capital. Bliakhov, in his "Problem of circulating resources in the internal trade of the U.S.S.R.") tried to calculate these requirements on the basis of what he called "trouble-days", expressing the resultant of the volume of marketable goods and the time it takes to place them in the market under "normal conditions". He assessed the figure at some 200 million roubles for the whole trade network of the country, i.e., including private trade. In the abstract, his method of calculation appears to have been sound. But it is questionable whether his assumption of fairly constant velocity of circulation held good for any commodity group in those days.

from various credit institutions. Thus, the vicious circle was re-started, for industrialisation continued to claim its own. Realising this, the advocates of commercial crediting linked their demands for additional resources with a plea for a thorough rationalisation of the whole State trade machinery so as to shorten the period of moving the goods from producers to consumers and thereby to achieve a maximum utilisation of commercial credit.<sup>1</sup>

The problem of trading capital remained unsolved during the NEP and it continued to occupy the minds of Soviet economists in the subsequent periods.

It would seem that the problem can be solved permanently only if and when the growth of the national economy is a balanced one, i.e., when adequate funds are earmarked for the purpose of exchange and distribution and every increase in marketable production is balanced off by corresponding additions<sup>2</sup> to liquid trading resources. This balance could not be observed under conditions of primary<sup>industrial</sup> accumulation on which Russia had, for good or for evil, embarked. But, even then, it became abundantly clear that the task of reconstruction would defeat itself, if the requirements of State trade received no attention whatsoever.

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<sup>1</sup>Cf. infra.

## CHAPTER VI

## CO-OPERATIVE TRADE



## CO-OPERATIVE TRADE

### General.

As distinct from State trade, the consumers' co-operative movement had the immense initial advantage of having gathered a rich store of practical experience in the pre-war era and this was perhaps one of the reasons why the Bolshevik Party, at that time, held the opinion that it was up to the co-operative movement to conquer the retail market from the private trader. But apart from technical superiority there ~~was~~ a host of political considerations which prompted the Soviet Authorities to pay special attention~~al~~ to the co-operatives and their reconstruction, Lenin, in particular, was always fully alive to the great importance of the co-operatives for the new régime.<sup>1</sup>

The main lines of development along which the co-operatives should proceed were summarised in Lenin's last article which he wrote before his death under the title "On Co-operation". There he said: "... By adopting the NEP we made a concession to the peasant as a trader, a concession to the principle of private trade; it is precisely for this reason that co-operation acquires such enormous significance. ... Politically we must place the co-operatives in the position of always enjoying not only privileges in general; these~~se~~ privileges must be purely material privileges (bank rate, etc.). The co-operatives must be granted loans which, if not large, shall exceed the loans we grant to the private

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<sup>1</sup>As early as March 1919 (at the VIII Party Congress) he voiced the opinion that the co-operatives represented the only democratic mass-organisation which capitalism had developed, and that they were the only mass-movement which had deep roots in the peasantry.

entrepreneurs... by assistance we must mean assistance for co-operative trade in which real masses of the population really take part. ... The whole thing now is to be able to combine the wide revolutionary range of action, the revolutionary enthusiasm...with (I am almost ready to say) the ability to be an efficient and literate merchant, which is sufficient to be a good co-operator."

### Problems of growth.

From the Narkomprod the co-operatives had received a certain "commercial fund" which, together with the goods to be collected, was supposed to lay the foundations of the co-operatives' commercial operations. But, in so far as the Narkomprod was not liquidated until 1924, the co-operatives remained dependent on its mercy, a fact which hampered their badly needed freedom. Besides, the co-operatives suffered from the now familiar infantile diseases of the new era: organisational, economic and financial weaknesses, unwieldy trading units,<sup>2</sup> excessive trading oncost, indiscriminate profiteering, in brief: "commerce for the sake of profit  
~~commerce.~~"<sup>3</sup>

The restoration of the co-operative apparatus proceeded slowly and painfully, the co-operatives being in constant competition with State trading and private merchants.<sup>4</sup> The organisational weaknesses of

<sup>1</sup>/Collected Works, op.cit., Vol.9, pp.402 et seq.

<sup>2</sup>Liashchenko mentions the early tendency of the co-operatives towards super-centralisation. The turnover of the Centrosoyuz amounted to 31% of the turnover of regional and district organisations as compared with 5% in 1916. (op.cit., p.252). <sup>3</sup>Ibid., p.255.

<sup>4</sup>The attitude of the Trusts towards the co-operatives was extremely frigid. They preferred to dispose of their

the co-operative framework consisted chiefly in the inadequacy and, as often as not, in the non-existence of the intermediary links uniting the small local co-operatives with the system of the provincial co-operative union and the central authority, the Centro-soyuz. This was the main reason why State industry was simply compelled to build a wholesale and retail trading network of its own. Originally it had made the attempt to hand over its produce to the Centro-soyuz on the basis of general contracts, but this experiment turned out to be an utter failure.

Another factor which crippled the freedom of the co-operatives and prevented their effective adaptation to the new conditions was the system of compulsory membership. Up to the end of the year 1923 any kind of voluntary co-operation was considered illegal. Later, the principle of voluntary co-operative association was formally recognised by the Soviet Government on two occasions ( December 18, 1923, and May 20, 1924 ). Yugoff complians, however, that this Magna Charta was illusory to a great extent, especially in the cities. But, in point of fact, the decision to allow voluntary membership, at least in principle, exerted a salutary effect on the growth of the co-operative movement. This measure coincided with decisions to go ahead with the strengthening of the co-operative network. The December (1923) Plenum of the Party's Central Committee, the XIII Party Conference and the XIII Party Congress (1924) stressed the importance of

(continued from the previous page): goods on the free market (at higher prices). This attitude favoured the growth of private intermediaries and wholesale merchants. /Yugoff, op.cit., p. 187.

the co-operatives. The "Resolution on Co-operation" passed by the XIII Party Congress, in particular, stated that the foremost task of the co-operative movement consisted in ousting private commercial capital from the trade turnover with a view to welding a direct link between the socialised industry and the peasant economy.

A certain amelioration of the position occurred in 1923. In 1922/23 the turnover of rural and urban co-operatives, including the provincial and district unions as well as the Centre, was only 691 million roubles; in 1923/24 it amounted to 1,502 million roubles, a noticeable advance in spite of the extremely negligible absolute proportions of the turnover. The network of shops also grew, but the number of co-operative branches, especially in the villages, remained <sup>entirely</sup> ~~by far~~ inadequate.!

A distinct improvement in the work of the co-operatives took place in 1924 as a result of the successful completion of the Monetary Reforms, the greater attention paid by the Communist Party to the co-operatives and the overcoming of the economic difficulties of 1923.

The recovery of the co-operatives manifested itself in (a) the size of the membership; (b) the growth of the network; (c) the increase of turnover; (d) finance; and (f) the strengthening of contacts with State industry.

As regards the first "index" of co-operative strength, the number of members belonging to the

There was one co-operative shop per 3-4 villages or about 4,500 inhabitants. At the beginning of 1924

consumers' co-operative movement increased from 7,093,000 on October 1, 1924 to 12,462,000 on October 1, 1926. In 1926/27 it exceeded the 15 million mark. In the villages the rates of growth in membership were particularly high. In 1926 11 per cent of the adult rural population belonged to the co-operatives (as compared with 5 per cent in 1924). In the towns the growth was less rapid, but the proportion of the co-operat<sup>ING</sup>~~ed~~ population was much larger than in the villages (viz., 51 per cent of the adults in 1926). Most members of the Trade Unions belonged to a co-operative store.

The growth of the co-operative network can be gleaned from the following table (taken from Nikolin, op.cit., p.32):

	Year end, 1.10.24		1.10.25		1.10.26		1.10.27.	
	Societies	Stores	Soc.	Stores	Soc.	Stores	Soc.	Stores
Urban network of workers' co-operatives	1,598	8,394	1,597	15,061	1,514	17,442	1,459	19,143
Agricultural network	21,023	28,735	24,028	36,397	27,142	45,294	27,162	52,000
Total expressed as % of 1927	22,621	37,129	25,625	51,458	28,656	62,736	28,621	71,143
	100	100	113	139	127	126	169	192

Thus we see that in the towns the co-operative network was strengthened by the combination of the different co-operative societies and by an appreciable increase in the number of shops, while in the countryside there was an increase in the number of co-operative societies, desirable in view of the scattered rural

(continued from previous page): only 3.15 million peasants etc. belonged to the co-operatives as compared with 2.6 million in the towns. (Cf. Liashchenko, op.cit., p. 251).

Data taken from Nikolin, op.cit., pp. 37 seq.



population. But the position in the rural districts remained unsatisfactory: the number of shops ~~per society remained unsatisfactory: the number of shops~~ per society was far too insufficient.

Turnover went up in both town and country. Actually the rate of advance was higher in the rural co-operatives; this was understandable since their recovery had proceeded from an extremely low level.

In spite of this noticeable progress in all directions it appears that the growth of the co-operatives did not fill the gaps which were created by the contraction of private trade.<sup>1</sup> One of the main limitations of growth seems to have been the insufficient number of trading premises, especially in the outskirts of the cities. This was explained by the fact that, during the operation of the "commercial principle" before the Revolution, the network of urban shops taken from pre-war days was marked by an undue concentration in the centre of the towns and that because of the high building costs it was not easy to erect a sufficient number of new shops so as to eradicate the existing misproportions. By way of a temporary solution the Narkomtorg suggested in March 1928 to pay greater attention to the development of the peripatetic trade (stalls, booths etc.) of the co-operatives for the purpose of supplying the population with foodstuffs and other necessities.<sup>2</sup>

In 1927/28, owing to certain attractions, the share contributions of members increased.<sup>3</sup> Although

<sup>1</sup>Cf. Dobb, op.cit., p. 365.

<sup>2</sup>Nikolin, op.cit., p. 39.

<sup>3</sup>No dividends were (or are) paid by Soviet co-operatives. cf. Great Soviet Encyclopaedia, Vol. 22, p. 267.

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profits fell from 147 million roubles in the year ending October 1, 1926 to 85 million roubles in 1927.<sup>1</sup> During 1922/23 - 1926/27 turnover rose by more than 12 times, viz., from 1,123 million roubles to 14,255 million roubles and amounted to 36 per cent of the total turnover of commercial and industrial undertakings in the country.<sup>2</sup>

The contact with State industry was greatly strengthened by the extension of the system of general contracts which enabled the co-operatives to dispense with the middleman services of the local Torgi and local branches of Syndicates.<sup>3</sup> The value of transactions comprised by these contracts grew from 528 million roubles in 1925/26 to 1,049 million roubles in 1926/27, and 2,032 million roubles in 1927/28.<sup>4</sup> In 1927/All this is surely a clear proof of ~~the~~ very tangible achievements. Progress was not easy and could hardly have been attained without the assistance administered by the Government on various occasions. Still, many failings remained. Fraud and bureaucratic inefficiency could only be overcome by a lengthy and persevering process of education.

What did the co-operatives trade in? It appears that cloth and articles of clothing represented the major commodity-group, both in rural and urban societies, viz., about 25 per cent of the total turnover. Other representative goods were household utensils, chemicals,

<sup>1</sup>"To achieve a surplus on its trading was sometimes a very difficult matter. Prices of staples were regulated by the State, and... the profit often disappeared in overheads or was lost through mismanagement. ...retail prices (of unrationed articles) were never very far above wholesale prices...." (Paul, op.cit., p. 63). <sup>2</sup>Nikolin, op.cit., p. 40. <sup>3</sup>Cf. Great Soviet Encyclopaedia, Vol. 15, p. 159., Nikolin, p. 43. <sup>4</sup>Economics of Soviet Trade, op.cit., p. 78.

tobacco and makhorka, leather and leatherware, sugar, etc. Agricultural commodities, with the exception of cereals, did not figure prominently in co-operative trading. The fact that only a relatively small portion of agricultural produce, especially of a perishable character, was handled by the co-operatives, was deprecated by the Authorities, since these goods occupied a large part of the workers' budgets. But the organisation of the sale of industrial goods by the co-operatives was hailed as a great success, although, owing to the then existing shortage, an extension in the sale of these goods by the co-operatives frequently meant a corresponding reduction of State retail trade.

Another limiting factor remained in the shape of lack of circulating capital, a question which was discussed with special reference to State trade. Bank credits being insufficient, the co-operatives often financed their operations by commodity credits granted by industry. In <sup>some</sup> ~~the~~ measure, however, ~~that~~ the co-operatives achieved a certain degree of internal accumulation.

The inadequacy of resources had its "demoralising" effects on the conduct of business by the co-operatives, in so far as <sup>some of</sup> ~~them~~ tried to "finance" themselves by imposing excessive and unauthorised retail additions on wholesale prices. This procedure not only ran counter to the interests of the consumers, but defeated the whole object of the co-operative movement during the NEP, namely to dislodge and replace private trading by low prices and superior service and

In 1926/27 the urban population brought 4/5 of its requirements of manufactured goods from the co-operatives, and the rural population about 40%. (cf. Nikolin, op.cit., p.45).

to become the trade link between town and country. Needless to say, this narrow "market orientation" had nothing to do with a true co-operative spirit. However, with the tightening-up of price control and regulation by the Government ~~the~~ easy device of internal accumulation became more and more difficult to exploit and there is evidence to show that in 1926/27, in spite of the still existing shortage of credit, the State showed no leniency and enforced its price control and its limitations of retail price additions with considerable stringency.

Thus, the NEP witnessed, on the whole, a remarkable advance <sup>in</sup> ~~of~~ the consumers' co-operative movement, although its financial weakness and general inefficiency persisted.

P A R T    I I

THE NEW ECONOMIC POLICY : CONTINUED



## I N T R O D U C T I O N

In this part of the study we propose to discuss certain special features of the growth of commercial activity under the NEP with a view to bringing out the continuous evolution of the beginnings of planned consumption.

The history of trade under the NEP is an incessant struggle, weaker and stronger at different times, conducted by all the means and methods available, between two economic spheres of influence, viz., the State ("socialised") sector and the private sector. The overwhelming part of industry being nationalised or organised on co-operative lines, the State enjoyed, from the outset, an ~~ultimate~~ advantage over private trade. On the other hand, the private trader, although but inadequately armed, had a superior knowledge of terrain and strategy; he was alert and evasive and entirely without scruples. For this he can hardly be blamed, for the State did not treat him with undue leniency. The struggle between socialised and private trade was really at no time fought by the State with purely economic or purely administrative weapons. Both devices were used according to the strength of socialised trade and the political propriety of this or that course of action.

But planned consumption did not only grow through<sup>2. /</sup> the clash of the contending forces. In fact, the elements of struggle and reconstruction were constantly present, as we hope to show, in all the Government's measures taken in relation to trade.

## CHAPTER I

### PLANNING ATTEMPTS AND THE RATIONALISATION OF TRADE

Although, when the New Economic Policy was adopted, the State, (while legalising the exchange of goods) retained all economic key-positions, it did not make any serious attempts at regulating the market at once. We know that the first phase in the growth of trade in Soviet Russia was marked by an acute disorganisation of the market, so much so that trade at that time showed a very close resemblance to the worst type of capitalist commercial profiteering.

The subjective will on the part of the Government to obtain control over the processes of exchange (which in its then existing forms it rejected very strongly both on doctrinal and political grounds) remained unyielding however. Consequently, as soon as the Bolsheviks had recovered from the severe shock of their political reversal in 1921, they began to consider and explore the most suitable and efficacious means by which they could gradually extend their regulative influence to the sphere of the market. But, if they wanted to remain realists they had, with forces and factors determining the beginnings of commercial activity in those days, to limit themselves to indirect and preparatory steps of organisational guidance and general supervision. To this preliminary period belong such measures as the gradual shaping of State trade and the drawing up of commercial legislation which might circumscribe the different functions of the various channels of trade and grant a certain modicum of security to private commercial activity as

well as fix the scope of unrestricted market-exchange; the partial emancipation of the co-operative movement to suit the new conditions, the gradual normalisation of monetary circulation and the building up of the credit-machinery; the improvement of transport and the attempts to restore trade-links by means of fairs and goods-exchanges. The range of these measures suggests that all the State intended doing was to create such conditions as would foster trade initiative of both the socialised and the private trade-sectors. The State had no desire to intervene too much in the market's functioning, for it realised that otherwise the main initial object of the NEP - the restoration of economic activity on the basis of the market-economy - could not be achieved. Furthermore, the development of the new autonomous trade-organisations along "commercial" principles could only take place by granting them a certain measure of real independence and freedom. It was equally plain that any resolute planning "offensive" was bound to be reduced to naught in the absence of a sufficiently strong and well-conceived planning organisation.

But, while a comprehensive scheme of direct planning and regulation of trade was absent in the first years of the NEP, the State carried out certain immediate measures in the sphere of agricultural collections. On account of the extreme importance of this question for the Russian economy, it might be worth while to sketch out briefly the history of agricultural collections during this period.



It will be remembered that in the beginning of the NEP the State collections of agricultural surpluses were effected in accordance with set quantitative plans on the basis of goods-exchange and, later, by ordinary sales and purchases, and that the collecting organs were the co-operatives acting on behalf of the Narkomprod and in close contact with agricultural co-operative societies. After the goods-exchange operations had ceased, the collections were financed by monetary funds of the Gosbank. For the 1922/23 Collecting Campaign special collecting organisations were set a-going, e.g., the Khlebprodukt! The success of these "planned" agricultural purchases is brought out by the fact that in 1923/24 they exceeded the compulsory levies on the basis of the tax in kind, but unfortunately the same year exhibited also certain maladjustments brought about by various State collecting organs competing with one another and failing to observe the decreed prices, this because of the non-existence of any rational plan of <sup>various</sup> dividing up the market among the ~~eight~~ collecting agencies which were functioning at that times. A further complicating feature in the situation was the competition on the part of private capital as well as the general clumsiness and costliness of State trade. These factors naturally led to violent disparities between collecting and sales prices in time and space. In view of these disquieting phenomena the State introduced, in 1924/25, certain measures to insure more effective

Nikolin, op.cit., pp. 76-77.

planning of agricultural collections. They consisted mainly in a drastic reduction in the numbers of authorised collecting agencies,<sup>1</sup> the strengthening of co-ordinated and disciplined operations and in the purging of the collection campaigns from private interference, especially in connection with regional collections. These reforms brought about a noticeable improvement in the Collection Campaign of 1926/27 which could be seen from the diminished <sup>disparity</sup> ~~discrepancy~~ as between spring and autumn prices and as between the prices ruling in different districts, although ~~these~~ remained considerable. The proportion of grain which was collected in a "planned" way grew from 58 per cent in 1924/25 to 75 per cent. in 1925/26 and to 83 per cent. in 1926/27.<sup>2</sup> Absolutely planned collections amounted to 10,590,007 tons (being 270 per cent. of the quantities which had been collected in 1921).<sup>3</sup> These quantitative successes were accompanied by qualitative achievements, such as the reduction of trading on-cost from 20.9 kopeks per pood in 1924/25 to 9 kopeks per pood in 1926/27.<sup>4</sup>

<sup>1</sup> By 1923/24 the number of basic collecting organisations alone had risen to sixteen. In 1924/25 this number was reduced to nine, the Gostorgi and the Gosbank being eliminated from these operations. (Cf. Nikolin, op.cit., p. 77).

<sup>2</sup> The supply with bread of peasants residing in consuming regions continued to remain in the hands of the private traders. (Neiman, op.cit., p. 129). The so-called "unplanned" collections of the State, which were intended mainly for purposes of local supply (cf. Nikolin, op.cit., p. 78), neutralised to some extent the influence of the private trader; they were much more "commercial" than the "planned" collections and subject only to local instructions.

<sup>3</sup> For figures and details cf. Neiman, op.cit., pp. 125-26; The Economics of Soviet Trade, op.cit., p. 88 and Nikolin, op.cit., pp. 73 et seq.

<sup>4</sup> The Economics of Soviet Trade, op.cit., p. 88.

There were weighty reasons why the Soviet Government was so very firm in trying to subject the grain market to a certain degree of planning. The Revolution did not diminish the great influence which the volume of harvests exerted on the development of the national economy and on national well-being. In fact, the emancipation, both economic and social, of the peasantry, enhanced the economic and political importance of the agricultural market under the Soviet system. The output of grain determined the standard of living of all classes of the population; it had the most direct bearing on the quantity of grain and other agricultural produce which could be set aside for purposes of export, thus providing the wherewithal for the importation of equipment, agricultural and industrial, and also of absolutely indispensable consumers' goods. Agricultural trade, furthermore, was connected with ~~affected~~ other important branches of the economy, such as transport (in so far as a full realisation of the crop cannot be achieved without a fairly elastic and efficient transport system), the financial machinery (which has to adjust its monetary issues and its credit-advances so as to facilitate peasants' purchases just when the farmers are about to dispose of their produce), and industry (which similarly has to "tune in" its productive rhythm, so as to supply the necessary volume and assortment of manufactured articles against which the peasants will fully and readily exchange their goods).

Now we can appreciate the Government's energy in dealing with the grain market, even when, as regards the other domains of economic life, the Authorities had assumed an attitude of waiting non-interference.

Indeed, the State's determination not to let private trade take possession of the grain market is easily understood, if one considers that such a domination by private merchants would have given them indirect control over the productivity of 24 million farms. This would have been fraught with incalculable political dangers, since, without sufficient bread to feed the growing army of industrial workers, the Soviet programme of restoring and reconstructing industry would have been doomed to fail straightaway. "The fight for bread was the fight for socialism." (Lenin).

But the determination to oust private trade from agriculture was not sufficient in itself. Government collections of grain were inconceivable without the tackling, by the State, of a whole number of vital problems of planning technique. Nikolin enumerates five of them: (1) the synchronisation of collections and sales, both as regards volume and dates of realisation; (2) the linking up of collections and sales with the finance and transport systems; (3) the fixing, at a certain level, of prices offered by the collecting agencies and those demanded by the peasants and their correlation during the campaign as well as their adjustment according to the price-levels for other agricultural and industrial produce; (4) organisation of the trading apparatus for collecting and disposing of grain, sufficiently ramified and elastic, in order

fully to comprise the market without causing collision or friction between the various collecting agencies, and working with the utmost capacity and with the lowest possible expenses.

The planning and regulation of the grain-market lay in the hands, first of the Narkomprod, later of the Narkomvnutorg and then of the Narkomtorg in co-operation with the Council of Labour and Defence (S.T.O.) and the State Economic Planning Commission (Gosplan).<sup>1</sup> Towards the end of July 1924 Gosplan began to work out, subject to subsequent sanction by the S.T.O., annual, and later monthly, collection plans, valid for the whole of the Union and comprising such cereals as rye, wheat, oats, barley etc.<sup>2</sup>

This kind of work equipped Gosplan with the necessary schooling in planning technique which came in very useful later on. First, Gosplan divided the territory of the U.S.S.R. into producing and consuming agricultural districts, which division served as a basis for the differentiation in treatment<sup>of</sup> and the degree of supervision in the various regions. Obviously the collections in consuming regions were mainly local in character (in so far as they remained and were consumed in that district), while collections in producing regions were of an All-Union importance.

<sup>2</sup>S. Putisky, Planning of Internal Trade by Gosplan, Planovoie Khosiastvo, 1925, No. 5, p. 296.

<sup>1</sup>The Gosplan was instituted by virtue of a decree dated February 22, 1921. It is "an expert advisory body, similar to a permanent Royal Commission or a group of standing commissions. ... The closest parallel in this country to the work of these two bodies, S.T.O. and Gosplan, is probably the suggested Committee of Economic Policy and the Economic General Staff which are outlined in the Report of the Liberal Industrial Inquiry of 1927-28." (M.H. Dobb in the Encyclopaedia Britannica, Vol. XIX, p. 709, article on Russia.)



This division necessitated, further, a close realistic study of the economic geography of the different parts of the country, such as the average volume of harvests, climatic conditions, means of communication by land and water, the various types of cultivation prevailing etc. Gosplan's work in this field included also central financial and transport dispositions and the fixing of prices at which grain was to be collected and subsequently sold.

The results of planning the trade in grain were far-reaching for the Soviet system. Not only did the Authorities manage to concentrate in their hands the greater part of the countryside's marketable surpluses, they likewise succeeded in reducing the very harmful speculative reserves, which were being formed by the more well-to-do farmers in the hope that they might dispose of them in the spring or even in the ensuing year when a diminished supply and an increased demand (especially among the poorer classes of the population) would enable them to charge higher prices. In the hands of the State these reserves were turned into the so-called "manoeuvring funds", especially for the use in consuming regions, where the influence of private grain traders was rather noticeable..

Under the then existing individualism in farming the Government did not, of course, attempt to extract from the peasants their legitimate reserves, i.e.,

/ On the occasion of the XIV Party Congress (December 18 till December 31, 1925) the socialised sector occupied the basic positions in relation to a number of the most important agricultural goods. The report of the Trade Commissariat given at the Congress, proudly observed that the State organs had succeeded in occupying the "commanding heights" in agriculture; 66 per cent. of the commercial production of grain, for instance (excluding the trade turnover among the peasants

carry-overs from abundant harvests. This, it is true, made the State dependent on the richer group of farmers, but since it had the political and administrative means of compulsion, the Authorities did not particularly grudge the peasants these normal stocks. Still, the Central Economic Administration could not for very long escape the absolute need of building up a national reserve of grain for cases of emergency, in spite of the considerable cost which such a "freezing" of resources entailed. In 1925 the "State Bread (Grain) Fund" was formed and was held at the disposal of the Narkomtorg to provide for harvest failures, sundry extraordinary requirements and, occasionally, for the facilitation of grain export operations. To a certain extent the Fund was being used for routine market-manoeuvring, such as eliminating hitches in the supply of consuming regions and the regulation of prices. In 1925/26 the Fund amounted to 50 million pood, while the total reserves held by the different collecting agencies came to about double that amount in 1926/27!

As regards the quality and extent of agricultural planning, it should be plain that in those days of extreme market-fluidity the Central Economic Administration had to be capable of dealing very quickly with extraneous market-forces. Although, in view of the "scissors" ~~sales~~ crisis of autumn 1923 Gosplan set up a special "Conjuncture Council" (i.e., a body charged with study and analysis of market-trends and conditions by means

(continued from previous page): themselves) <sup>as</sup> were handled by Government agents. (Cf. Neiman, op.cit., p.129.)

/Cf. "Grain-Market", 1925, Vols. 17-18, p. 70 and "Soviet Trade", 1927, Vol.35. (Both quoted by Neiman, op. cit., p. 131.)

of observation points placed all over the country) whose data were taken into consideration when the plans of agricultural collections were drawn up, these surveys were, especially in the early years of planning practice, not very dependable. Therefore the Authorities, in order to meet a quickly changing market-situation, had to resort to speedy transfers of cereals from one part of the country to another, or to such more "roundabout" measures as increasing or diminishing the exchange-funds of industrial goods, changing rates of taxes and the dates of their payment, revising freight-charges, adjusting the credit-policy etc. At times, however, blunt administrative intervention was applied, in the shape, for instance, of prohibitions to import, into, or export from, particular districts.

Nikolin mentions that sometimes the Planning Authorities could not foresee or take into account the various "psychological" causes for the fluctuations in the volume of marketable grain.<sup>1</sup> In 1926/27 external complications (e.g., the breaking off of diplomatic relations with Britain etc.) contributed without a doubt to the diminution in the sales of grain by the peasants. It is questionable whether the quantitative effects of these "scares" among the farmers were at all considerable. But this sort of thing indicates, nevertheless, the kind of qualitative limitations which became patent in the course of the Collecting Campaign 1927/28, when the kulaks attempted to use their economic power to slow down or even to under-

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<sup>1</sup>Nikolin, op.cit., p. 73.

mine the industrialisation of the country. Political hostility on the part of the kulak class and the fetters placed upon production by small-scale and backward individual farming were the basic subjective and objective causes of the relatively slow accretion in marketable agricultural surpluses.<sup>1</sup> This, in face of the ever expanding demands of industry for raw-materials, ultimately led to the collectivisation campaign.

Notwithstanding these structural limitations in planning agricultural collections, however, a material basis was doubtless created for the growth of industry and the supply <sup>ies for</sup> of industrial workers whose food situation improved considerably.<sup>2</sup>

<sup>1</sup>In 1927 grain-growing was only 91 per cent of pre-war, while marketable grain, i.e., the amount of grain sold for the supply of the towns, scarcely attained 37 per cent of the pre-war figure. (History of the C.P.S.U., op.cit., p.286).

<sup>2</sup>The food supply of the industrial workers remained precarious even after the liquidation of War Communism. In 1922 the main items of a worker's diet were bread, potatoes and cabbage, but these necessities of life were at least more plentiful than before the new economic orientation. A marked improvement in the supply of workers with foodstuffs occurred in 1923. Consumption of meat increased considerably and in 1927 it exceeded the 1922-level by seven times, while the consumption of butter had gone up by two and a half times and that of sugar by five and a half times. Besides, the worker relied less and less on the private merchant as regards his day-to-day needs. In 1923 52.2 per cent of the worker's requirements in foodstuffs was met by the private merchant, and in 1927 only 33 1/3 per cent. In so far as the prices of the private traders were on the whole higher than those of socialised retail trade, the increase of the share of socialised trade in workers' supply was even more considerable than would appear on first sight. It is interesting to note that, as late as 1927, such products as sugar, salt, bread, flour, butter, fish and meat were mainly supplied by State and co-operative trade, while the bulk of such goods as vegetables and milk were purchased from the private trader. It seems that the supply of perishable foodstuffs remained for a long time an extremely unsatisfactory feature of socialised trade (although the influence of the State in the butter and egg market was considerable). (Cf. Neiman, op.cit., pp. 127 et seq.; Budgets of Workers and Employees, Vol. I, The Budget of a Worker's Household in 1922-1927, Moscow 1929, (R); Internal Trade and its Regulation in 1924/25, Moscow 1925, (R).)

In course of time, also, planned collections were extended to "industrial" crops and animal products, like cotton, sugar-beet, hemp, linen, wool and leather.

Summarising, it can be said that in the sphere of agricultural collections during the NEP a vast store of planning experience and technique was ~~acc~~umulated. Methods of dividing the market into districts and contingents, the system of the planned transmission of grain to consuming and to some "specialised" producing regions were tested and greatly perfected.

#### The Regulation of the Industrial Market.

During the NEP the planning on a large scale of agricultural trade had to precede, both logically and economically, the regulation of the industrial market. The State occupied the "key-positions" in economic life and there were also direct links between the autonomous State enterprises. Hence there was no desperate or immediate need ~~for~~ <sup>for</sup> planning the industrial market. Agricultural surpluses, on the other hand, could only be obtained by way of exchange.

Very soon, however, it became increasingly evident that the planning of agricultural trade was inextricably linked up with the control and direction of the industrial market. However much collecting technique improved, the crux of the matter (which no organisational or administrative trick could solve) remained at <sup>all</sup> ~~any~~ times the earmarking of funds of manufactured goods sufficiently big in volume and offered at terms <sup>sufficiently</sup> ~~inducive enough~~ to the peasants to part with the bulk of their marketable produce.



The first attempts to regulate the market of industrial goods were very modest, ~~if~~ <sup>to say</sup> not timid, and were dictated by day-to-day needs. It will be remembered that the first Government body regulating the market-contacts of State industry was the Central Commercial Department of the V.S.N.Kh. which functioned rather unsatisfactorily in the very beginning of the NEP. More serious was the planning activity of the Komvnutorg of the S.T.O., whose setting up coincided with the trustification, syndicalisation and "torgisation" of Soviet industry. The Komvnutorg was concerned chiefly with the regulation of the exchange of industrial goods and paid special attention to the revision (lowering) of the delivery prices of State industry.<sup>1</sup> There was no grand planning scheme behind this work and its actual execution was determined by the requirements of the moment, i.e., by those major economic and financial difficulties which found their expression in the various commercial and financial crises in the first years of the NEP. The solution of the sales-crisis was, to a great extent, due to the price lowering campaign instigated by the Komvnutorg. It is stated that after the liquidation of ~~razbazarivanie~~, State industry recovered so much that it sustained on the whole no losses in the financial year 1923/24. This was a very laudable achievement considering the adverse conditions with which the

<sup>1</sup>At first the lowering of delivery prices was only attempted in the case of very few commodities (salt, sugar, vegetable oil). Later on the number of goods whose prices were controlled by the Komvnutorg was widened. (Cf. Economics of Soviet Trade, op.cit., p. 90).

Komvnutorg had to contend in those days.

The realisation of the Monetary Reforms gave a new impetus to the regulation of the industrial market. The greater determination to oust private capital was shown in the liquidation of the Komvnutorg and the setting up of the Narkomvnutorg which was invested with the powers of "regulating the whole of trade and of assuming the principal rôle in the determination of the commercial policy of all economic organisations founded with the help of the State." Shortly after the inauguration of the Narkomvnutorg, Trade and Co-operative Sections of the Gosplan were set a-going.

Apart from price-regulation (which will be discussed separately), supervision of the industrial market assumed the form of planning the transport of industrial goods. The first plans of this kind date back to the third quarter of the financial year 1924/25. They were, of course, inextricably intertwined with the then beginning regulation of agricultural collections. Before that the distribution of funds of industrial goods was effected by the various trading organisations in a rather haphazard way, causing overlapping, confusion and economic waste. The problem which arose in 1924/25 consisted in extracting the maximum of agricultural surpluses and exercising utmost economy in the use of the scant manufactured articles ("deficit goods") which had to serve as equivalents. The first plans were too clumsy and too ambitious (comprising, as they did, too wide a range of products). They were actually never sanctioned by

<sup>1</sup>Saveliev and Poskrebyshchev, Directives of the C.P.S.U. (B) on Economic Questions, (R), p. 156. (Quoted in Economics of Soviet Trade, p. 90.)

the V.S.N.Kh. The next series of plans was worked out for the last quarter of 1924/25, this time duly approved by the S.T.O. and put into operation. They covered the three most important agricultural producing regions and included such commodity-groups as cotton fabrics, metal goods, leatherware, sugar and agricultural machinery.

The planning of the industrial market did not, however, stop at these regional plans of distributing industrial products. In 1925 the regulative organs began to insist on more stringent and more clearly defined relations between industry and the trade-network, especially between the former and the consumers' co-operatives. This meant that industry had to undertake the supply of the co-operatives with a specified volume and assortment of goods at specified dates on the basis of "general contracts". At first this interference with the freedom of the NEP was greatly resented by the trusts and Syndicates which were apprehensive lest contractual discipline might interfere with their aptitude to adjust themselves to the ever-changing market-situation. This, in a nutshell, reveals the contradictory forces which the NEP had engendered. Having broken class-monopoly and retained the "commanding-heights" of the economic battlefield after the bitter, cruel and disappointing years of War Communism the Bolshevik Party was ultimately driven to adopt a firmer attitude <sup>against</sup> economic "fluidity" in the measure as its position was consolidated and <sup>as</sup> the private capitalist elements began to behave in (what the Communists thought) a rather provocative fashion, likely to threaten <sup>the</sup> stability and

authority of the régime. But the contradiction consisted in the very fact that the revival had been achieved, not by the cold and unimaginative administration of War Communism, but by the lively and intuitive methods of State Capitalism, working with profits, commercial accounting, bidding and higgling in the market etc. As we have described, the switch-over had been difficult and often distasteful. But once the adaptation had been painfully achieved the Trusts and Syndicates began to like the new practices. They revelled in the freshly discovered thrills of commercial adventure, the more so as the conditions <sup>in</sup> of those days offered ample opportunities to the managers of commercial enterprises to enrich themselves by clever market-machinations. Small wonder then that the Trusts and Syndicates strongly deprecated the conclusion of general contracts with the co-operatives which, while vital to the commercial policy of the State, acted as millstones to the autonomous economic organisations which were loath to forego their easy gains by subjecting the bulk of their output to binding arrangements and by determining beforehand the circle of clients with whom they had to trade. But gradually the State broke the resistance; industrial production became concentrated in syndicated trade and contractual discipline was enhanced.

These measures assured the progress that was being made in connection with the planned regional distribution of manufactured articles which grew in importance as planned agricultural collections (without which industrial accumulation was unthinkable)

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were extended. The distributive plans became more systematic, covering an ever extending territory and assortment of goods, but, since they were still being confronted by incalculable market-factors, they had to remain restricted in their time-range. The first All-Union plan <sup>for</sup> ~~of~~ distributing industrial produce was put forward for the second quarter of 1925/26.<sup>1</sup> This plan was divided into two uneven parts, viz., the so-called "basic" part, comprising about 80-85 per cent. of the planned volume of industrial produce which was to be distributed over the different districts, and the so-called "reserve" consisting of the remaining 15-20 per cent. of the planned merchandise in the form of stocks to be held at the disposal of the various commercial agencies and later (first quarter of 1926/27) of the Narkomtorg and to be used by them for supplementing the supplies of the different districts in case of need. These plans of commodity-distribution played an important part in the stimulation of commercial activity (along lines desired by the State) in distant parts such as Asiatic and Northern districts which depended entirely on the importation of manufactured goods from other regions. It is obvious that the plans catering for these regions had to be adjusted to their specific requirements (transport and climatic conditions etc.). As a rule the supply of such far-flung regions could not be carried out continuously, but had to take place at certain intervals.

In the 'Economics of Soviet Trade',<sup>2</sup> the significance of planning the industrial market is summed up

<sup>1</sup>Cf. Internal Trade during Ten Years, op.cit., p. 198.  
<sup>2</sup>p. 95.



as follows: " There is no doubt whatsoever that the plans for distributing industrial goods over the country during the Restoration Period played an important positive rôle and were one of the means of strengthening the ties between town and countryside. The organised direction of agricultural collections ...required a flow of industrial goods reciprocal to the flow of goods emanating from the villages to the towns. The plans <sup>for</sup> ~~of~~ distribution played an important part in extirpating the private merchants from the market of (agricultural) collections; they enabled the ~~socialist~~ sector to concentrate in its hands the greater part of the rural economy's marketable produce and to incorporate it later on into the system of "contractation"; thus they constituted an essential link in the chain of measures that were applied by the Party with a view to preparing the ground for the Kolkhoz Movement. <sup>In</sup> ~~By~~ having secured the introduction of the principles of planning into the distribution of commodities the plans of distribution facilitated, at the same time, the task of introducing the principle of planning into other spheres of goods-exchange - movement of goods, prices, finance etc. - and made it possible for the regulating organisations to deal energetically with the problem of rationalising channels and forms of the movement of goods and to strengthen the economic regulation of prices."

This is, indeed, a very idealised description of the wider and ultimate significance of planning the exchange of industrial commodities by the State. In actual practice the plans had a more immediate purpose

in view, such as the mitigation of the cleavage ( in separate regions and districts as well as in the country as a whole) between the demand for, and the supply of, industrial commodities. Furthermore, the execution of the plans left much to be desired. Regions in which the increase in the circulation of goods would have required the advance of considerable sums for the purpose of building up of an adequate stock of working capital, tended to be undersupplied. Generally speaking, the authors of the plans laboured under the delusion that a simple administrative device was sufficient to solve basic economic difficulties.

On the other hand it would be a great mistake to overlook the fact that the methods which the Russian Communists employed in planning the market for industrial and agricultural products exhibited a slow advance from the initial indirect guidance of the market to the direct interference with the forces of demand and supply and then to the actual moulding of those forces. The whole process was thus a truly Bolshevik mixture of trial-and-error procedure, practical expediency and long-term economic and commercial policies.

#### Rationalisation of Trade.

The urgent need for rationalising the Soviet trade-network arose not very long after the introduction of the NEP and can easily be explained. The growth of the State-controlled trade apparatus had been nervously chaotic and lacked inherent purpose and order. The difficulties of marketing in those days,

caused by the severely curtailed holding-capacity of the market and the economic heritage of War Communism, led to unnecessary parallelisms in socialised trading and <sup>to</sup> the indiscriminate formation of trade-agencies and branches without due regard to their rational working and to the efficiency of socialised trade as a whole. Both the trading centres and the lowest distributive branches explored every conceivable avenue whereby they could get into direct touch with the sources of supply of consumers' goods with the ultimate object of dumping them in the market and thus obtaining the precious circulating resources. There was no proper division of functions between the centres and the branches, a state of affairs which was clearly contrary to the most elementary canons of economic rationality. ~~alisation.~~

As regards the distributive organisation of industry itself the position was hardly more satisfactory. The NEP had brought about a marked decentralisation in distribution and marketing, so much so that the Trusts continued selling their own goods even after the floating of the Syndicates. This led to duplication of functions and, to make matters worse, the Trusts began, as we know, to encroach upon the domain of activity that was properly assigned to the intermediate branches of the co-operatives.

It was clearly necessary to concentrate and centralise supply and distribution. This, of course, did not amount to a relapse into the practices of War Communism, but meant the rigorous weeding out of overlapping trading agencies as well as <sup>the</sup> simplifying of

the whole organisation of the supply of consumers' goods and was the more important as the existing scarcity of commodities, even in relation to the decimated purchasing power of the population, exacted the maximum of economy.!

Although the crying need for rationalisation became apparent almost simultaneously with the growth of socialised trade, no successful measures to improve the situation could be undertaken before the State's regulative influence on trade in general had assumed the necessary proportions. This is the reason why we have discussed planning attempts before the problems of rationalisation.

It is impossible within the scope of a general narrative to record in detail all those measures which were passed by such bodies as the S.T.O. with a view to rationalising the trade-network. It will ~~just~~ be sufficient to emphasise that the lines along which rationalisation was supposed to proceed were mainly these: (1) the extension of the system of general

/Strictest economy was also required in face of continued industrial expansion-an additional impetus for rationalising the commercial network. This rationalisation campaign, which naturally transgressed merely the re-modelling of trade and included the demand for lowering industrial costs by means of improvements in organisation, was begun in 1926 and intensified in 1927. The Joint Resolution of the Sovnarkom and the S.T.O. of June 28, 1926, called upon the banks to make the granting of credits to co-operatives conditional on "actual achievements in the reduction of commercial expenses and of retail prices." Thus, the campaign was linked up with that of lowering prices. Centrosoyuz and the V.S.N.Kh. received instructions from the S.T.O. to work out rationalisation schemes for co-operative and State trade. Rationalisation was declared to be one of the five major economic tasks for 1927 and was discussed at great length at the XV Party Congress. (Cf. Dobb, Russian Economic Development, op.cit., pp. 331-32).

contracts as the formal link between the centres of supply (Syndicates) and the distributive agencies (co-operatives); (2) "transit" as the technical method of supply, that is to say, "through-trade" which could dispense with considerable wholesale stocks of goods that were regarded as a luxury in those days; (3) the limitation of functions of industrial selling organisations to what was described as "initial wholesale"; (4) the assignment to the Torgi of strictly local trading functions and of contacts with the non-co-operated demand.

So far we have been concerned with the question of rationalisation as it was posed in relation to wholesale trade. ~~Some of the problems confronting retail trade have been mentioned before (e.g., increase in size).~~ The most acutely felt weakness was the parallelism in State and co-operative retail. It was decided to carry out the rationalisation of the socialised sector's retailing along the lines of strengthening the co-operatives and extending their scope. It was hoped thereby to attain appreciable economies in retail distribution. State retail<sup>trade</sup> was retained so as to prevent the co-operatives from assuming the dangerous position of monopoly. Furthermore, the model establishments of State retailing were an ideal experimenting ground for various ambitious rationalisation schemes and could thus set the pace

<sup>1</sup>/Cf., e.g. the orders of the S.T.O. dated August 18, 1926, quoted by V. Zhitomirsky, The Problem of Rationalisation of Trade Turnover (in The Internal Trade of the U.S.S.R. during 10 Years, op.cit., p.275. Although commodities were supposed to pass through the minimum number of warehouses (two as a rule - hence the "two links" principle) their movements were in actual fact often "truly fantastic" (Cf. "Soviet Trade", 1927, vol. 50, p. 6). cf. p. 642 m.1.



for the lagging organisations.

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But there were numerous other deficiencies in retail trade which called for energetic and speedy repair. At the beginning of its functioning socialised retail trade worked much worse than private trade. Later, certain improvements took place, especially in the direction of an increase <sup>in</sup> of the retail trading unit. This process, of course, was bound to reduce trading oncost; it affected, to a certain extent, private retailing as well, but was, owing to the lack of security on the part of the private merchant, mainly restricted to the socialised sector. These structural changes and the "degree of concentration" are brought out in the following table (taken from Gromyko and Riauzov, Soviet Trade during 15 Years, Moscow 1932, (R), p. 18):

DYNAMICS OF THE STRUCTURE OF RETAIL TRADE						
Years	23/24	24/25	25/26	26/27	27/28	1930
Types	in %					
Large-scale	43.8	43.8	46.2	47.8	48.5	72.9
Small-scale	56.2	56.2	53.8	52.2	51.5	27.1

We see that, up to the commencement of Integral Planning, Soviet ~~≠~~ retail trade remained predominantly small-scale in spite of all efforts at rationalisation. This was partly due to the fact that the State (as will be explained later on) in its struggle against the private sector was compelled to retain the small-scale type of shop because of its popularity with the consumer. Apparently, the compromise between this concession and the needs of concentration (which the Bolsheviks in their ~~craze for outdoing American~~ standards so adored)

was attempted by developing the system of branches of retail undertakings. But efforts in this direction remained ~~by far too~~ inadequate. The abrupt change which occurred in 1930 in favour of large-scale retail trade was to a great extent ~~mechanic~~ <sup>formal</sup> and artificial, since Integral Planning entirely changed the whole machinery of distribution.

Special ~~taxes~~ of commercial rationalisation were reserved for the agricultural market and here regulation and rationalisation went hand in hand. As a general rule it was ordained that not more than 3-4 agencies should concern themselves with the collection of a particular agricultural raw-material. The other measures of rationalisation such as the assignment of districts to different organisations and the all-round reduction in the number of authorised collectors has been dealt with elsewhere. All this led to a greater utilisation of the trading agencies and to a certain reduction of their oncost.

All these reforms can be described as belonging to the external rationalisation of State trade and, in this sense, are hardly separable from the general planning attempts. But the more thoughtful and far-seeing among the U.S.S.R.'s economic captains realised from the beginning that State commerce could entrench itself firmly in its position and widen its sphere of operation only if ~~each of its~~ component units could compete economically with private enterprise. This,

As regards the division of functions between the co-operatives and the State collectors, the co-operatives had to look mainly after the interests of the agricultural population.

however, was only to be achieved on the basis of sound management. We know to what hopeless state of degeneration and chaos internal management had been reduced owing to the general embroglio and the destruction of economic calculation under War Communism. Thus the needs of internal rationalisation were <sup>as</sup> ~~equally~~ pressing as those of external adjustment.

An important point in this connection was the question of the productivity of the sales-staff. The Authorities spared no efforts to increase the "output" of the State's and the co-operatives' commercial employees. According to official statistics successes in this direction appeared rather spectacular. It was claimed, for instance, that during the years 1924 to 1927 the turnover per employee increased 63-fold in the network of the Syndicates. Such a rapid rate of advance in the productivity of labour in the sphere of State trade is, of course, to a very considerable extent, to be explained by the fact that the revival of Soviet commerce proceeded from an extremely low state of productivity. In any case, improvements in this regard were noticeable, not only in the system of the Syndicates, but also within the co-operatives and local State retailing. In retailing the advance of productivity was, however, not so imposing as in wholesale. This was to be attributed partly to the greater technical limitations of turnover per employee in a retail undertaking as compared with wholesale, but it also pointed to the probability that the planning organs paid greater attention to the

/Zhitomirsky, op.cit., p. 248.

rationalisation of the wholesale bases than to that of the retail shops. Besides, it is fairly obvious that the results of external rationalisation had more immediate and more noticeable repercussions on the productivity of labour in wholesale trade than in retail shops which latter continued to offer a wide scope for the improvement in the "human element".

The central question of internal rationalisation was the reduction of distributive costs. This problem is, especially under Soviet conditions, important enough to merit a separate discussion. In this context it will suffice to say that the Party had, on many occasions during the NEP - e.g., at the XII Party Congress (1923), the XV Party Conference (1926) and the February Plenum of the Central Committee (1927), - stressed the importance of the regulation and the reduction of distributive costs.

The changes in distributive costs in the period under review may perhaps be best illustrated by a few statistics. According to L. Zalkind, writing in the Great Soviet Encyclopaedia, these changes were as follows:

GROSS RETAIL PRICE-ADDITIONS  
EXPRESSED AS A PERCENTAGE OF TOTAL TURNOVER

Years	Industrial goods	Agric. goods	Tot. goods TO.
1924/25	16.0	27.9	20.2
1925/26	15.2	25.6	18.6
1926/27	12.3	24.5	15.8

<sup>such</sup> figures/as these should be regarded with extreme caution, for they differ considerably from information

supplied by other sources. The reason for these discrepancies, adduced in official publications, is that there were many different methods and bases of calculation, none of which was entirely accurate./

The problem of distributive costs touches on different aspects of Soviet trade. In so far as they included the profits of the commercial enterprises and budgetary contributions, the question was really one of price-regulation and commercial policy. Inasmuch as these costs were inflated by extortionate earnings of private merchants and of some of the "autonomous" commercial enterprises of the State, it became a matter which had to be settled by strong pressure exerted on private trade and by rigorous control of the socialised sector. But, to a great extent costs of distribution depend upon the degree of the rationalisation of trade. It was realised in those days that much could be achieved by reducing transport costs and other oncost items by means of improving the organisation of the transmission and handling of merchandise. An analysis of the available statistical material suggests that the effects of external rationalisation on the level of distributive costs became noticeable in 1926/27, again more in wholesale than in retail trade. In retail trade abuses of the management (pilfering, profiteering etc.) and the

/Larin lamented about the inadequacy and faultiness of the statistical services in those days. Every statistician had entirely different bases of calculation, some counted in gold roubles, others in commodity-roubles etc. ( Cf. Larin, The Lessons of the Crisis and the New Economic Policy, Moscow 1924, (R), p. 60).



harmful influence of the private merchants demanded greater attention than the needs of internal rationalisation, but nobody denied that an energetic improvement of the internal organisation could discover further reserves of economies. This task, however, remained unsolved during the NEP.

## CHAPTER II

### SOCIALISED VERSUS PRIVATE TRADE

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A Soviet economist (who subsequently fell into disgrace) wrote in 1927: "There can be no doubt that the historian, in describing the economy of the first ten years of the Revolution and the struggle within it between capitalist and socialist tendencies, will focus his attention with great interest on the manifestations of these tendencies in the sphere of market-relationships, in the sphere of the exchange of goods. The spectacle of the ousting of private trade and its replacement by the dominating positions of the so-called socialised sector...represent a phenomenon unparalleled in economic history."

"Indeed, the struggle of the two "compartments" of the Soviet economy is most fascinating. The idea of limiting private commerce to an extremely narrow sphere of operation was present in the minds of the leading Bolsheviks from the time of the very inception of the NEP. Lenin at once posed the defiant question: "Who will defeat Whom?" and argued at great length that the proletarian State, without betraying its own nature, could allow the freedom of trade and the development of capitalism, but only within limits and only on condition of State regulation over private trade and private capitalism.

In the course of 1923, however, (which is sometimes described as the period of the "perversion of the NEP") the private elements and tendencies developed with such vehemence that the private sector

managed to capture strips of "forbidden territory". Then came what we have described as the period of "learning how to trade". The Party took to heart the bitter lesson which it had learnt and started to prepare itself for an onslaught against the private sector.

During the period of War Communism the relentless struggle between the new régime and the bourgeoisie was being fought by direct measures of brutal economic coercion and political interdiction. During the NEP the new arena of the fight between these two forces became the market and the battle was waged with more "peaceful" weapons. The internal market was the only sphere that was left to the remnants of an exhausted and decimated bourgeoisie to consolidate what remained of its influence and power. The occupation, by the State, of all "commanding heights" of the national economy had shattered for ever the hope of deriving new strength from alien fellow-capitalists or of resurrecting the lost economic and political status by investing in the heavy industries.

The State misjudged, it seems, the inherent capabilities and versatile pluckiness of the "NEP-men". Not only did they usurp almost the whole sphere of goods-exchange, they also attempted to strengthen their position by linking up with small-scale and medium industry as well as with the well-to-do representatives of the peasantry. The process of capitalist accumulation was started again and the State, acutely alive to this new and somewhat unexpected danger, accepted the challenge.

From the point of view of the <sup>balance</sup>~~division~~ of power between the two "compartments", there could be no doubt whatsoever that private enterprise was doomed to loose from the outset.

The struggle against the private merchant was begun on the economic plane. Lenin insisted that the economic forces under the command of the working class were sufficient to assure the transition to communism. Seemingly he conceived the possibility of driving out the capitalist elements by purely economic weapons, i.e., by the actual economic superiority of the new order. Nevertheless, even during the initial stages of the struggle of socialised against private trade the idea of administrative duress was never lost sight of. It will be recalled that simultaneously with the re-admission~~ion~~ of private enterprise came its limitation by the State: in his article on "The Importance of Gold", written in November 1921, Lenin reassured his followers that the "proletarian state can master trade, give it direction, put it within certain limits." But indirect economic pressure remained the main method of attack.

It is important to realise straightaway the crux of the conflict between State trade and private commerce. Why did the State permit the inordinate growth of capitalist trading at all? Why did it not apply, at once, adequate administrative restraints that would have curbed the activities of the private merchants and middlemen? The State, had, no doubt, the power to do so, but such a course of action would have amounted to the blocking of the only existing



effective distributive links between town and country and would thus have defeated the whole purpose for which the New Economic Policy had been framed. It follows, therefore, that economic restraints were limited in their application by the capacity of the State to replace the services of the ousted private merchant.

Unfortunately, the Soviet Authorities, in their persistent attempts to subdue and exterminate private commercial activity, were not always guided by sound economic maxims. There were many occasions in the history of trade under the NEP when the State applied rigorous administrative and punitive measures against the private merchants, although the economic condition of its consumers' goods-industry and of its trade-organs did not make it possible to replace what had been destroyed. Such actions have to be viewed in a political light. In so far as the Soviet Government is a dictatorship and the machinations of the "NEP-men" constituted in fact grave political threats to the régime, it had to act in a way which was not consonant with the elementary principles of a prudent economic policy and <sup>this</sup> resulted in a lowering (if only temporary) of the standard of living of the Soviet citizen.

Let us now describe very briefly the various stages through which the struggle between the two

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This is one of the disadvantages of any dictatorial régime. From the economic point of view, the repressive actions of the Soviet Government can only be excused on the assumption that, after the distasteful job had been accomplished, the Authorities would concentrate all their energies on improving the material lives of the common people. This, however, cannot be answered at this juncture.

"compartments" passed. The years of retreat of State and co-operative trade were what Deluz describes as the "l'âge d'or du commerce privé"! It <sup>was</sup> ~~is~~ in those years of adaptation and cut-throat competition between the different nationalised enterprises that private speculation and enrichment were rampant and <sup>that</sup> ~~the~~ foundations of private commercial capital were laid. Besides, the development of private trade was being favoured at times by the State itself, paradoxically though it may sound. In a country of the size of Russia we cannot expect uniform compliance with the orders of the Central Authorities by all local organs; in addition, the uniformity of outlook within the Communist Party is of a comparatively recent date: especially in the beginning of the NEP there were many divergent trends and opinions current among both the leadership and the rank and file of the C.P.S.U. Furthermore, the economic staff in the Government was composed of many "non-political" elements.

Arguments in favour of private trade were in those days publicly discussed and filled the columns of verbatim reports of conferences, of newspapers and periodicals. <sup>2</sup>

Dobb states that "until 1923 the question of trade and of State policy towards it had received little serious consideration. (For the time being) the State with its preoccupation in the realm of production

<sup>1</sup>Deluz, *Le Role du Capital Privé dans la Russie des Soviets*, Paris 1929, p. 129.

<sup>2</sup>Contemporary Soviet historians complain that "wreckers" in the trade-apparatus rendered far-reaching assistance to the private merchant (chiefly by way of credit-advances) and propagated the view that private trade had to be maintained, since it was more elastic and also in view of the excessive trading costs of State commerce. It is even alleged to-day that these "wreckers" went so

was willing to let such trading bodies as existed, including the private trader, work their own sweet will."

As early as March 1922, viz., at the XI Party Congress, Lenin called a halt to the retreat and demanded the re-grouping of forces so as to put a stop to further concessions being granted to the private economy. But the real offensive against private trade started immediately after the XII Congress (April 1923).<sup>2</sup> It is significant that the focussing of attention ~~to~~ on problems of trade coincided with disturbances in the market. At the XIII. Party Conference, which was held in January 1924, the question of the market assumed a central position. "The "scissors" crisis", observes Dobb, "had transferred attention from industry to the market."<sup>3</sup> One of the resolutions passed at this Conference pointed out (in the usual heavy Bolshevik jargon) that the "question of the relation between State and private capital in the sphere of the economy represents at this juncture the most important question, for it pre-determines the constellation of the class-forces of the proletariat, which is based on the nationalised industry, and of the new bourgeoisie, which in its turn is based on the elemental processes of the free market. The growth of private capital must be arrested by increasing the economic importance of the co-operatives and of State trade and their adaptation

<sup>1</sup>Dobb, Russian Economic Development, p. 359.

<sup>2</sup>History of the C.P.S.U.(B), Moscow 1939, p. 262 and Yugoff, Economic Trends, op.cit., p. 182. One of the resolutions was to the effect that "the most important task of the coming year will be to regain a dominant position on the trading front. Private capital must be replaced by the co-operatives". (quoted by Yugoff, ibid.)

<sup>3</sup>Dobb, Russian Economic Development, p. 359.

(continued from previous page): far as to interfere with the planned regional transmission of goods, so as to prove the weakness of the principle of planning. It is not always easy to give credence to such allegations.

to the needs of the commercial turnover in the villages."

As regards the economic crisis, the XIII Party Conference emphasised that the difficulties had been accentuated by the weaknesses of co-operative and State trade. Their contacts with the market had been defective and the co-operative retail shops failed to inform the supplying organisations in good time of the difficulties in marketing that had arisen. The "selling out" tendencies of the Trusts and Syndicates were also deprecated in very strong terms. Two practical conclusions were drawn from the discussions of the Conference: the first was "positive", viz., the strengthening of the co-operative and State trade network (which we have described) and the second was "negative", viz., the struggle against the private merchant.

From Dobb's account of the discussions at the Conference<sup>2</sup> it appears that at first the policy of the Opposition was adopted almost fully by the Party's Central Committee. These proposals, which were formulated by Larin, favoured the application of direct administrative means to supplant the private trader in favour of the co-operatives and State trading organs. "Larin proposed to prohibit State bodies from delivering goods to private middlemen, except to village retailers who undertook to sell their goods at an assigned price; to restrict the issue of bank credits to private wholesalers; and to apply additional differentiation by means of taxation to the private

<sup>1</sup>Quoted by Neiman, op.cit., p. 106. (source given).  
<sup>2</sup>Russian Economic Development, pp. 360 et seq.

trader." And, although at the XIII Party Congress (May 1924) it was emphasised that the basic method in conquering the market should be not measures of administrative pressure, but the raising of the position of co-operative and State trade", the policy of administrative interference was not abandoned. Professor Karlgren writes:<sup>2</sup> "Some figures...from the Leningrad gubernia show that 75% of the business men's turnover was taken in taxes, the Government tax being 45%, the Commune tax 22%, and other taxes 8% of their income. ... Great numbers of business men, big and little, were arrested and banished to the northern gubernias. ... In the summer 1924 the campaign, aided by the fiery zeal of the Press, reached its highest point. ... Even at a very early stage of this campaign the Bolsheviki succeeded in crushing the private wholesale trade.<sup>3</sup> ... The campaign against the widely-spread net of retail trade was less easy to carry to to a successful issue, and, at the same time, more hazardous as well. ... But, even in this direction they...reduced the share of the markets that the private trader had succeeded in gaining to about  $\frac{1}{2}$ ."

The "hazardous" character of the campaign against the private retailer is corroborated by Jugoff thus: "To begin with, this policy was successful in restricting the activity of the private traders. But soon there was a rally. Private enterprise accomodated

<sup>2</sup>Bolshevist Russia, London 1927, pp. 141 et seq.

<sup>3</sup>We know already why the first attack was directed against wholesale trade. It was intensified when Lenin declared wholesale trade as one of the "commanding heights" in the sphere of commercial turnover.

<sup>4</sup>Dobb, p. 360.



itself to the new atmosphere, wormed its way into the nooks and crannies of an apparently solid wall, adopted all the devices of protective coloration. Stubbornly it fought on behalf of the "right to profit". The new generation of private traders had gathered experience when winning their spurs and accumulating their capital in the period of war communism and of civil war. The wholesale dealers disintegrated their apparatus. To outward seeming they became retailers, they sold goods just as extensively as when they called themselves wholesalers. ... <sup>e</sup>When to some extent prevented from doing business in the towns...they entered into close relationships with the "kulaks". It was found possible to evade the official supervision, registration, and taxation to some extent in the towns, and still more in the countryside. By degrees, the private traders were again able to play an important part in the circulation of the commodities."

It is interesting to observe that a substantial part of public opinion took the side of private trade. Consequently, (and also because of the acute shortage of circulating funds in the nationalised economy) the Central Authorities resolved to call off the campaign, or, at any rate, to render it less rigorous until such times as socialised trade was strong enough and sufficiently efficient to replace private trading. Professor Karlgren goes so far as to say that the

Yugoff, op.cit., pp. 182-3. The retreat of private merchants to the villages and to Finance is stressed by Delz, op.cit., pp. 145-46.

Government was even resolved "to make a show of friendly invitation to those whom they had just been persecuting."<sup>1</sup> But unfortunately "the local administration, which has - as is so often the case after the complete reversals of Soviet policy - not kept pace with the new turn of events, still continues its constant castigation of nepmen."<sup>2</sup> Essentially, however, the policy of the forcible elimination of the private trader was temporarily checked. The merchants and middlemen took a respite. But it was not for long. Two years had passed since the XIII Party Conference and complaints about the profiteering of the private merchants became louder and louder. This time the situation was more favourable for the State, for although there was a good deal of speculative private enrichment, the relative share of the private merchant in the country's trade had meanwhile appreciably declined.<sup>3</sup> And, while "resort to the old methods of administrative repression...were not seriously proposed",<sup>4</sup> there was "towards the close of the year 1925...a second fierce campaign on the part of the authorities against the private traders; there was a third in the end of 1926; and ...a fourth in the beginning of 1928, as a part of the general

<sup>1</sup>Op.cit., p. 145. Comp. also Dobb, op.cit., p. 367 and Deluz, op.cit., p. 137. Credit-policy became more favourable to the private merchants.

<sup>2</sup>Karlgren, op.cit., p. 145. <sup>3</sup>In his Report to the XV Party Conference Rykov pointed out that an absolute improvement in the position of the private trader was not inconsistent with his relative decline. (Quoted by Dobb, op.cit., p. 369).

<sup>4</sup>Dobb, ibid.

"swing to the left" ".<sup>1</sup>

These new offensives, it is true, relied much less on brute force, but there was no question of a return to the principle of competition on equal terms. The administrative machinery of the State continued to function. But it no longer relied on the method of police-raids on private shops; it preferred the device of arbitrary refusal to grant fresh licences for the establishment of new private shops or to renew existing permits.<sup>2</sup> In addition, the fiscal screw was pitilessly applied.

The numerical results of these campaigns can be gleaned from the following information:

As regards the changes of the retail trade net the figures were these:<sup>3</sup>

DYNAMICS OF RETAIL TRADE EXPRESSED AS A PERCENTAGE OF  
THE FIRST QUARTER 1923

Dates	1923	1922/23	1923/24	1924/25	1925/26
Sector	1st qu.	2nd half	1st h. 2nd h.	1st h. 2nd h.	1st 2nd h.
Socialised sector	100	115.0	143.0 167.0	203.0 252.0	396.0 420.0
Private sector	100	103.0	104.8 104.6	109.0 117.0	136.0 136.0

This table reveals quite clearly the impact of the campaign against private trade launched in 1924 and the subsequent easing off of the restrictions; it also shows that, after 1924, the Authorities tried to fill the gaps which had been created by the disappearance of the private merchants.

<sup>1</sup>Yugoff, op.cit., p. 183. <sup>2</sup>"En 1926-27, il a été délivré aux entreprises commerciales 455,600 patentes. En 1927-28 ce nombre s'est abaissé à 315,500, soit 31.2% en moins." (Deluz, op.cit., p. 143).

<sup>3</sup>Soviet Trade after 15 Years, Moscow 1932, p. 15.

The changes in the relative shares of the different types of retail trade from 1922/23 until 1930, that is to say the "degree of socialisation" of Soviet trade, are brought out in the following table: (in % %).

Sectors	1922/23	23/24	24/25	25/26	26/27	27/28	28/29	1930
State	14.4	15.4	19.9	16.2	16.3	15.0	17.3	17.4
Co-op.	10.3	29.7	37.7	43.8	48.8	59.0	67.4	76.3
Private	75.3	54.9	42.4	40.0	35.5	25.4	15.3	5.3

The last onslaught against private trade which coincides with the launching of the First Five-Year Plan utilised once more the policy of administrative rout. The "swing to the left" meant in effect that the State felt strong enough to take the whole of the economic life under its direction and to replace the "commercial link" between town and country by the "productive link".<sup>2</sup> Private trade had to go, the it was argued that more so as it would have provided a refuge for politically hostile elements in those critical days.

But, even when it became abundantly clear that the battle had been lost by the private trader, he did not surrender. Reminiscent of the "heroic" days of War Communism he merely went underground. The end of the NEP and the beginning of the planning era is characterised by the revival of illegal private trade.

During the years 1928/29 and 1929/30 private trade and small private trade which was duly registered and taxed declined by 132,091 units (viz., from 170,476 units to 38,385 units), or by 77.5 per cent. During the special quarter 1930 ( which was

<sup>1</sup>/Economics of Soviet Trade, op.cit., p. 83. Here the growth of the co-operatives both at the expense of State trade and private commerce is noteworthy.

<sup>2</sup>Cf. below, pp 253 et seq.

inserted for the purpose of making the financial year coincide with the calendar year) this private trade network was reduced by a further 52.9 per cent. Nevertheless, the private trader managed to salvage quite a considerable part of his capital and was promptly putting it into illicit circulation.

The Soviet press in those days complained and lamented bitterly about the impossibility of drawing a clear line of demarcation between legal and illegal private trade. Behind small and seemingly harmless retailers the rich merchants hid, so that the supposedly independent small traders were, in actual fact, mere agents of shady capitalists. This reduced greatly the efficacy of fiscal control. In view of this fact it was suggested, not only to raise tax-rates to be levied on private trade, but also to exercise a stricter fiscal supervision and to give the Revenue Authorities wide powers of search of those who did not fulfil their financial commitments. These suggestions were followed up and it was claimed that they were successful in detecting "foul play". It is hardly necessary to add that the militia and the criminal police lent their full support and co-operation to the fiscal Authorities. Thus, in the eyes of the Soviet Government, the semi-legal and the illegal private trade did not only present economic and financial problems but constituted one

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/Finance and Socialist Economy, 1931, No.6, pp. 7 et seq. (I.Segal, Illegal Private Trade and the Struggle against it).



of the worst forms of the "intensified class-struggle of the dying bourgeoisie".

Analysing the struggle of socialised versus private trade we find a great deal of truth in Deluz' statement that "cette substitution du commerce d'Etat au commerce privé ne se faisait pas en vertu des lois ordinaires de la concurrence commerciale, mais par la pression administrative, par des impôts écrasants, la restriction ou l'annulation complète des crédits consentis, le refus de vendre les produits de l'industries d'Etat, en un mot par l'élimination, en quelque sorte mécanique, du concurrent privé." But it <sup>is</sup> also important to bear in mind the following considerations: it was the Russian Revolution which destroyed the ordinary laws of competition. During the period of War Communism they were almost entirely inoperative and when the NEP was proclaimed they could only function within a limited sphere. The struggle between State and private commerce was above all a political struggle between two warring camps, admittedly with a very unequal command over political and economic power. Its outcome as such can, of course, **not** be described as pointing to the superiority of the principle of State regulation versus that of free competition. Under Soviet conditions there was and could be at no time a normal functioning of free competition. The principle of free competition was re-admitted in 1921 in a perverted form and it continued to work in a perverted

/ Finance and Socialist Economy, op.cit., ibid.  
 2 Op.cit., p. 136. Italics ours.

fashion. It is too simple to attribute this development to the State's actions alone. It is true that the State had forced private trade underground during the days of War Communism. It did so, as we tried to show, not (or not entirely) by its own volition, but under the force of superior internal and external considerations and driven by the whole uncontrollable momentum of the social upheaval. It is almost a natural law that under such conditions one of the contending parties tries to assume political power and, once it has captured it, not to let it slip out of its hands. When the Bolsheviks had gained the power they coveted, all their subsequent actions were coloured by their desire to preserve that power.

Under such circumstances there could be no question of a peaceful contest of the two sets of economic principles. In actual fact an imperfect and rather inefficient system of economic State regulation was fighting against a corrupt and degenerate system of free competition.

We wonder whether a fair contest between the unmarred principles of State regulation and free competition is at all possible in real life. If this were so its outcome would, from the point of view of an impartial economic investigator, certainly furnish conclusive evidence as to the economic superiority of one of the two ~~economic~~ principles. But such ideal and fair contests are (we are afraid) mere hypotheses and can only happen in Alice's happy Wonderland. In real life the principles manifest

themselves in social forces and are influenced by political strife.<sup>1</sup> But while the struggle between socialised and private trade does not really throw much light on the alleged superiority of a nationalised commerce, it suggests a certain general economic truth, viz., that while it is fairly easy to reduce private trading activity to nil by adequate police measures and the like, this displacement is limited economically by the capacity of the socialised sector to fill the gaps which have thus been created. This is not a very startling observation, but apparently the Bolsheviks did not appreciate it in good time.<sup>2</sup>

<sup>1</sup>These considerations seem to us to be commonplaces and we labour them for the sole reason that they appear to be overlooked by many writers on Soviet economic questions.

<sup>2</sup>However, even among the Soviet economists there were voices which warned against the indiscriminate destruction of private commerce in pursuance merely of a political creed without paying the slightest regard to economic factors. Thus, a Soviet economist wrote in 1927: "Finding ourselves at war with private commercial capital we have still to measure the force of the attack with its consequences. Our task is not only to destroy the opponent, but to occupy the liberated base by our own forces. ... We do not compete with private capital, but we are also applying non-economic pressure. Hence the position may well arise that non-economic pressure (taxes etc.) go too far ahead of the economic possibilities of socialised trade. ... the desire to curtail the influence of the private merchant...demand of us the replacement of the private trade network by a corresponding co-operative network. Otherwise the position of the consumer will be damaged." (L. Sokolsky, Questions of Private Commercial Capital, Soviet Trade, 1927, No. 49, pp. 3 et seq.). The author of this article goes on to prove (on the basis of ample statistical evidence) that the State did not succeed in compensating for the disappearance of the private trader by a balancing accretion of the co-operative trading system. (Corroborative statements to that effect can be found in Haensel, The Economic Policy of Soviet Russia, London 1930, pp. 143-5). He also pointed out that since the day-to-day wants of the average consumer were to a great extent served by smallish private shops (which, as Delz shows (op.cit., p. 137) incidentally required relatively less trading capital than similar units of the socialised sector) it was essential not only to rationalise and expand existing trading units, but to

Otherwise the struggle would not have been so erratic; indeed, its vacillating nature suggests that administrative pressure was in most cases ahead of economic possibilities of replacement, that the campaigns were called off because of the economic difficulties that arose, but that after a while these lessons were forgotten and political considerations compelled the Authorities to apply fresh measures of administrative duress.

It seems that a new civilisation can never be born without economic waste and that during its infantile period sound economic principles have to give way to the exigencies of political warfare, Indeed, a gloomy conclusion.

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(continued from previous page): establish, at least as a transitional measure, small trading units (in the form, e.g., of branches of bigger commercial undertakings), so as to take over the vital functions hitherto fulfilled by the private trader.

### CHAPTER III

#### PRICES AND COSTS UNDER THE NEP



In our discussion of War Communism we noted that, after the Revolution, prices disappeared both as an economic category and as a lever of economic policy. The introduction of an exchange-economy (if only in a modified form) revived the phenomenon of price.

This revival was a most painful process. Until the realisation of the Monetary Reforms in 1924 economic conditions continued to favour barter transactions based upon a reciprocal identity of wants. Prices, at that stage of the Restoration Period, were (like the prices ruling in the illicit markets of War Communism) mere reflections of the varying degrees in the scarcity of goods and were determined by the surging monetary floods which spread all over the country but affected some regions more than others.

Under these circumstances there could be no natural connection between prices and costs. The administrative and directive organs of the national economy tried their best to achieve some kind of a rudimentary calculation despite monetary instability and the chaotic state of the market, for they realised that the restoration of economic accounting was absolutely essential for the raising of the productivity of labour which latter, in the face of an all-round economic deterioration and the absence of any foreign help, was in effect the only reserve of the Russian economy. Accordingly, a number of measures were introduced by the Supreme Council of the National Economy to expedite the transition of State enter-

prises to proper costing procedure.<sup>1</sup> But the first attempts of this striving after economic accounting were rather helpless. Quite apart from the question of relative monetary stability, economic calculation requires financial discipline and simple bookkeeping efficiency. All these elements were absent and could not be created overnight. Rykov's description of the situation is very much to the point: "According to the judgement of the Workers' and Peasants' Inspection it is impossible to obtain exact or even approximate data concerning the economic state of nationalised industry because of the lack of adequate reports, accounts, figures and balance-sheets of any kind. The investigations of Gosplan confirm this view. In the S.T.O. there were cases when prices were fixed completely arbitrarily or administratively decreed and the experts had no idea why they fixed these and not other figures."<sup>2</sup>

The ways of price-formation under these conditions were truly strange. We have seen that at the beginning of the period under review there was the tendency to take pre-war value-relations as guidance for price-fixation in the market. The desire, on the part of the Authorities, to observe some kind of "normality" in price-formation is, e.g., discernible in the

<sup>1</sup>Cf. the Decree concerning the extension of rights of State undertakings in the sphere of finance and of the disposition over material resources. (*Ekonomicheskaya Zhizn*, July, 26, 1921). Cf. also Sigalas, *op.cit.*, *Statut, etc.*, p. 13 and S.S. Katzenellenbaum, *Russian Currency and Banking 1914-24*, pp. 88-9.  
<sup>2</sup>Quoted by Pollock, *op.cit.*, p. 139. - This state of affairs, brought about partly by the notorious general inefficiency of R. and the mentality of War Communism (production regardless of cost), was, without a doubt, to some extent responsible for the "selling-out" ("razbazarivanie") of the products of Russian industry.

practice of the decreed equivalents. But the chaotic working of the laws of supply and demand over-ruled these regulative criteria. Prices fluctuated violently according to district and commodity-group.

Very soon, a number of Soviet economists began to realise the futility of their worship of pre-war prices. It began to dawn on them that the War and the first years after the Revolution had wrought such tremendous and unevenly distributed transformations of productive activity that it was both nonsensical and dangerous to regard the pre-war price indices as the manifestation of some kind of "ideal" or "normal" exchange-relationships. In August 1922 the economist Smilga gave vent to these criticisms in an article in which he wrote: "We must put an end to the method which we applied in the preceding year, viz., to fix prices in accordance with pre-war business trends. ... there are no such things as pre-war prices and pre-war roubles. The world economic conditions and our own have undergone such a profound transformation that it would be a great mistake to work with pre-war standards."

But, if pre-war criteria were of no avail, what principles were there to guide the State in its endeavours to establish a fairly smoothly working price-mechanism in pursuance of the general aim of restoring economic activity on the basis of a modified market-economy ?

The first and obvious step was to make allowance for the transformations of economic activity. This

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/ Quoted by Pollock, *op.cit.*, *ibid.*

task was not simple. For it was <sup>not</sup> merely the changes in output and their incidence on the various branches of productive activity that had to be taken into account, but also changes in the volume of commercial output (i.e., of those flows of goods which were available and destined for market-exchange) that had to be gauged as correctly as possible. Industrial production offered comparatively little difficulty, since it was closely controlled by the State. As regards agriculture, after a rough estimate of total production, it was necessary to find out the proportion of agricultural output that reached the market. This depended, however, on the prices of the relevant manufactured goods and the fluctuations of the harvest. The degree of the actual changes between industry and agriculture ~~were~~ <sup>was</sup> established by first expressing the two commercial outputs in terms of pre-war evaluation and then ascertaining the degree of disequilibrium or discord (as compared with pre-war days) between industry and agriculture in general and between the different products in particular. Thereafter, the Authorities could ponder over the correcting measures to be introduced. These had, of course, to aim at an equilibrium between industry and agriculture, but not in the sense of reverting to pre-war conditions but in the sense of establishing a new balance in conformity with the changed circumstances. Thus, "normal" pre-war prices were taken just as a starting-point and served as a basis of comparison and orientation. /

/ Still, some industries like metallurgy, silicate and partly textiles continued to base their calculations

Only in this sense were they "normal". But then the new value-proportions which crystallised in the course of the NEP were by no means considered as "ideal" or "eternal" either. The changes that had occurred in the economic structure after the Revolution had been, to a great extent, elemental processes. When the NEP was inaugurated the market began to exert anew a very strong if not decisive influence on price-formation. But the State had retained the power to intervene in the economic sphere. The new equilibrium, a manifestation of the altered structure of Russian economic life, was therefore a composite equilibrium: i.e., brought about, in the main, by market-forces, but corrected by State fiat in a manner which the Bolshevik leaders deemed expedient and beneficial, the regulative influence of the Central Economic Administration growing with the passage of years.

What were the actual transformations that had occurred in agricultural and industrial production? At the outset of the NEP, market conditions favoured the peasants. There was a keen demand for grain (which was, more than ever, the prime necessity of the masses) and various other agricultural raw-materials. Industrial prices were relatively low because of the "selling out" practices of the Trusts. The poor harvest of 1922 intensified the demand for grain

(continued from previous page): on pre-war price-lists. This shows that the new value-proportions were being worked out by touchstone methods without much centralised guidance. But, as Turestky mentions (Planovoie Khoziastvo, 1936, No. 3, p. 124), the shortcomings of these old price-lists became noticeable at the beginning of the Reconstructive Era, when, e.g., the prices for metal goods were revised and unified.



still more.<sup>1</sup> But in the spring of 1923 the situation changed entirely and resulted in the "scissors"-crisis<sup>2</sup> to which we have referred on many occasions. One of its causes was excessive industrial costs and another the discontinuation of the "razbazarivanie". But the chief factor which precipitated the crisis was, of course, the uneven recovery of industry and agriculture. While agricultural cultivation advanced owing to the stimulus of the favourable terms of trade, industrial progress slackened.<sup>3</sup> In the year 1922/23, however, the rising tendency of agricultural prices found its definite limit in the decimated purchasing power of the towns. Very soon the agricultural index fell from 103 per cent of the pre-war level to 72 per cent, while the industrial index recovered from 97 per cent to 137 per cent. It appeared that while industry had reached only 35 per cent of its pre-war value in 1922/23,<sup>4</sup> agriculture had gained roughly 75 per cent of its pre-war yield,<sup>5</sup> although its marketable ("commercial") surplus did not keep pace with the improvement. "It is possible", says Dobb,<sup>6</sup> "that this fact (viz., industry's lag behind agriculture) warranted as much as a 2:1 change in the terms of trade between town and village." Professor

/Actually there seems to have occurred a slight rise of the agricultural price-index at that time. (Cf. Planovoie Khoziastvo, 1925, No. 1, p. 97). - The influential Soviet economist Groman (who subsequently fell into disgrace) aptly referred to the financial year 1921/22 as the "dictatorship of bread".

<sup>2</sup>It would be wrong to regard the "scissors" phenomenon as a typically Russian, for actually, "scissors" movements could be observed in many other countries after the War. (E.g., Germany and U.S.A.). But nowhere was the opening of the "scissors" so pronounced as in Russia. (Comp. Molchanov, op.cit., p. 8). <sup>3</sup>Cf. Dobb, op.cit., p. 221.

<sup>4</sup>Ibid., p. 223. <sup>5</sup>Liashchenko, op.cit., p. 310. <sup>6</sup>Op.cit., p. 224.

Liashchenko corroborates this view.<sup>1</sup> Similarly, Larin and Strumilin came to the conclusion that a rise of industrial prices by 1.5 or 2 times would be "natural", while Gosplan estimated the "natural" price-increase at two-thirds of pre-war prices.<sup>2</sup> Such price-relationships would have corresponded to the "normal" value-proportions relative to changed circumstances. In actual fact, however, the alterations which occurred in the terms of interchange between industry and agriculture came to something like 4:1 in favour of industry. This truly "abnormal" price-disparity baffled the economists of those days. One group of observers emphasised the influence of monetary disturbances as a factor accentuating the rise of industrial prices, others attributed it to the decline in goods turnover (which intensified the depreciation of the currency).<sup>3</sup>

From their close discussion and analysis of the "scissors" crisis it became absolutely clear to the Soviet economists that the point was being quickly reached where the countryside was no longer able to absorb the industrial wares. Had the economic development been left to an "automatic drift", the "free" functioning of the market would, no doubt, have forced the establishment of the "normal" exchange-relationships of 2:1 between industry and agriculture. This adjustment would have taken the shape of a

<sup>1</sup>Op.cit., p. 310. <sup>2</sup>Cf. Larin, The Lessons of the Crisis and the Economic Policy, Moscow 1924, (R), p. 10. <sup>3</sup>For details of the various interpretations cf. Dobb, op.cit., pp. 225 et seq. The close attention which the "scissors" phenomenon evoked in Party circles is shown by the fact that it figured prominently in the discussions which preceded the XIII Party Conference. (Dobb, op.cit., p. 245).

catastrophic fall of industrial prices and an acute sales-crisis. The "normal" proportions would, to be sure, have worked themselves out in the end, but at what a cost and with what far-reaching social repercussions ! The "automatic adjustment" of the "free" market would have ruined many an industrial undertaking, would have led to a considerable drop in production (particularly detrimental in view of the slow and painful rise of Russian industry) and would have caused severe unemployment.

The State tried to devise the appropriate measures which, while avoiding, as much as possible, the detrimental consequences of "automatic adjustments", would in the end lead to a "normalisation" of the price-relationships between town and countryside, not necessarily on the basis of 2:1 in favour of the towns, but if possible at a proportion more favourable to the peasantry and also more consonant with the industrialisation programme of the Communist Party.

Soviet price-policy in those days cannot be separated from the general economic intervention and regulation of the State. It is inseparably linked up, for instance, with the campaign for rationalising industrial production, since it was evident that all price-lowering decrees would remain a dead letter, so long as cost of production remained high.

Pressure was brought to bear, accordingly, upon the heads of the Trusts and Syndicates with a view to bringing about a reduction of industrial prices. On the "agricultural front" the Government tried to effect a rise of agricultural prices, "partly by

altered price-policy in grain purchases and more liberal credits to grain-purchasing organs and partly by a development of the export of grain."<sup>1</sup>

The measures to enforce the lowering of industrial prices were of a varied character. Mechanically indiscriminate price-lowering was considered dangerous. It is true that many autonomous industries, captivated by the "NEP-spirit", had unduly inflated their profits.<sup>2</sup> But an indiscriminate narrowing-down of the profit-margin by order of the State would have turned many of the profits of backward industries (and most of them were backward in those days) into losses. The problem resolved itself again into that of limiting excessive industrial costs. According to Dobb's analysis (based on Soviet statistics)<sup>3</sup> the main elements which made up the high cost-structure were the cost for credit-facilities (which with the introduction of monetary stabilisation was turned into a very "real" item) and the exorbitant railway tariffs exceeding those of pre-war days by about 20 to 25 per cent. Labour costs had increased appreciably, but varied widely in different branches of industry. The greatest rise, however, had occurred in the expenses for fuel and in general administrative oncost. We have already discussed the problem of overheads in relation to trading costs and the efforts to lower these by commercial rationalisation. As regards industrial overheads the State pursued a policy of industrial "concentration" with the object of

<sup>1</sup> Dobb, op.cit., p. 246, <sup>2</sup> Ekonomicheskaja Zhizn (2.9.23 and 11.9.23) gives instances of this kind of profiteering. (Quoted by Dobb, op.cit., p. 240).

<sup>3</sup> Ibid., pp. 247 et seq.

closing down, temporarily at least, those enterprises which were working at a loss and thus reducing the burden of overheads.!

Another device to force down industrial prices and thus make the closing of the scissors-blades possible was the policy of the so-called "commodity intervention". This scheme was put forward in 1923 and provoked much discussion in the Soviet press; it was actually adopted in certain special cases.<sup>2</sup> The crux of the scheme consisted in the importation of foreign products at the lower world prices, which were then put on the market so as to force the Trusts and Syndicates to revise their price-schedules and to reduce their trading oncost. In effect, the scheme represented a serious challenge to the monopoly position of the autonomous State enterprises. Such was the most radical form of the scheme. A modified form was proposed by Larin who criticised the crude conception of competition between imported and home products and drew attention to the dangerous effects which an unfavourable balance of trade would exert on the currency. What he had in mind came to this: one should allow the various Trusts to import foreign goods, to "mix" these with their own produce and to

/ By the spring of 1924 the policy of "concentration" had begun to achieve considerable results. Cf. Dobb, op.cit., pp. 251-52.

<sup>2</sup> Ibid. p. 247.



sell the total at an average or "combined" price.<sup>1</sup> As an example Larin referred to the sale of boots and maintained that it was possible to sell ten million pairs of boots which included five million pairs of imported articles at a lower average price than the five million ~~domestically~~ <sup>home</sup> produced pairs.<sup>2</sup> If this were the case the Soviet workers and consumers stood to gain. But Larin and his followers emphasised that this policy, when adopted, should not, on the whole, conflict with either the principle of the State Monopoly of Foreign Trade - the right <sup>to</sup> of import being reserved to selected State organisations only - or the principle of a favourable balance of trade.

A third modification of the scheme consisted in the proposal that the permit to import the cheaper foreign merchandise should only be granted on condition that the organisation in question undertook to buy a certain proportion of home-manufactured goods as well.

The common ~~scheme~~ <sup>element</sup> of all ~~these~~ schemes was the idea of deriving certain real advantages from the lower world prices<sup>3</sup> and at the same time to create a

<sup>1</sup>Cf. B. Ischboldin, Die russische Handelspolitik der Gegenwart. Ein kritischer Beitrag zum bolschewistischen Wirtschaftssystem, Jena 1930, p. 150 and A.G. Mikhailovsky, A Note on Combined Prices, Planovoie Khoziastvo, 1925, No. 12, p. 81 et seq. The latter suggested that instead of charging an "average price", the Russian factories should charge the usual domestic price, pocket the difference and place it at the disposal of the State (Mikhailovsky's remarks, however, were made when the blades of the price-"scissors" had closed almost completely and referred therefore not so much to the elimination of the value disparities between industry and agriculture but to the problem of internal industrial accumulation which became acute at that time.)

<sup>2</sup>Ischboldin, op.cit., p. 151.

<sup>3</sup>We have already drawn attention to the fact that even before the War world prices were much lower than prices in Russia. After the War prices rose all over the world

stimulus for the lowering of internal industrial prices. In the last two modifications of the original scheme we discern quite clearly the fear of harming home industry and creating a conflict between the interests of the Russian producers and the Russian consumers.

The scheme as a whole found many critics. The main attack was of course that, owing to the difference in quality of foreign and domestic goods people would purchase only the better class articles. Conceivably this "trick" of the consumers could have been countered by a similar "trick" of the sales-organisations. The ingenious Larin might have proposed that the Leather Trust should sell a left boot imported from abroad together with a right boot manufactured at home. But the main objection was, <sup>that</sup> as the actual practice showed, the policy of "commodity intervention" could be applied only in very special cases.'

Nevertheless, as a result of all these measures, (continued from previous page): but their advance in Russia (although it cannot be accurately established), was much more pronounced than elsewhere (inherited high cost-structure and the added dislocation of the Civil War !). Because of a rigid Foreign Trade Monopoly, prices abroad ceased to exert any "automatic" influence on internal price-trends. In 1927, the ~~ratio~~ of world industrial prices (grouped by countries) to analogous prices in the U.S.S.R. (taken as 100) was as follows: Britain: 45; Germany: 34; France: 42, U.S.A.: 31. (Cf. Molchanov, op.cit., p.13). Thus to the many price-"scissors" the "scissors" between world and home prices can be added.

/I.e., in relation to those goods which fulfilled the following conditions: (1) the difference between world and Russian prices must be very marked; (2) the imports must be of a magnitude substantial enough to exert a downward pressure upon domestic prices, and (3) in so far as the aims of "commodity-intervention" went beyond the immediate tasks of mitigating the "scissors"-crisis and were orientated towards the general directives of economic policy, the scheme should be applied, in particular, in relation to those commodity-groups where price-reduction was considered essential (e.g., machinery, agricultural implements etc.)

the Soviet Government succeeded in liquidating the "scissors"-crisis.<sup>1</sup> The price-policy of the Soviet Government as applied to the "scissors" phenomenon is not only important as a proof <sup>of</sup> a successful attempt at intervention into the processes of the free market, but is also a manifestation of the heatedly disputed <sup>economic</sup> official/policy of the Communist Party, whose main principle consisted in preserving the alliance between the towns and the countryside and in not allowing the dictatorship of either industry or agriculture; it also contains an indication of the almost blindfold striving of the Bolshevik leaders after a new economic balance within a new social framework.

The passing of the most acute stage of the "scissors"-crisis coincided with the successful termination of the Monetary Reforms. The stabilisation of the Soviet currency which helped so much in curbing the speculative machinations of private traders, laid the foundations for centralised price-planning. Now it became possible to <sup>the prices of</sup> fix/a number of important commodities.

<sup>1</sup> According to the Gosplan-calculations the disparity between industrial and agricultural prices was, on October 1, 1923, 90 per cent above "norm" and on December 21, 1923, only 25 per cent above "norm". Industrial ex-factory prices were lowered by 30 per cent. between November 1, 1923 and November 1, 1924. In 1924, industrial costs were reduced by nearly 20 per cent. (Cf. Turetsky, Methods of Price Planning, op.cit., p.119). According to official information, quoted by Dobb (op.cit., pp. 270/71) "the overvaluation of industrial goods against agricultural, as compared with pre-war, which on October (1923) had reached a ratio of more than 3:1 on the wholesale market, (had) by the end of the year fallen to 2:1 and by October 1924 to less than 1.5:1." That the closing of the "scissors" continued in subsequent years is clearly reflected in the changes of the wholesale index of Gosplan quoted by Molchanov (op.cit., p.6): in 1925/26 the disparity between the industrial and agricultural indices amounted to 1.7. and in 1926/27 to 1.25.

We know that wholesale trade operations were fairly soon taken over by State trading agencies and the Syndicates as well as the various Commodity Exchanges played an important rôle in the regulation of wholesale prices. Especially the latter, by means of their supervising functions and the limitation of speculative interferences, contributed a great deal to a more ordered and conscious price-formation.

"Collecting prices" in the agricultural market could be influenced by the methods of "contractation". This was most essential, for only thus could, from the price-side, industrial costs be reduced and retail prices controlled.

As regards the retail price-sphere standard prices for tea, salt, kerosene, sugar, makhorka, cigarettes and goloshes were being introduced from 1924 onwards. Otherwise, the regulation of retail prices of socialised trade (which, as a rule, were lower than those of private trade) was, in the beginning of the NEP, effected by fixing retail price-additions as a percentage of the cost of the commodity to the retailer. This left the period between the time when the commodity left the factory until the time when it reached the socialised shop free from State-regulation. Because of the growing strength of socialised retail trade the more effective system of norms and additions expressed as a percentage of the delivery (ex-factory) price could be introduced subsequently.<sup>2</sup> Side by side with

<sup>1</sup>/Cf. Neiman, op.cit., p. 138 and Turetsky, op.cit., p. 126.  
<sup>2</sup>These norms and additions were fixed by so-called "Parity Commissions" consisting of representatives of trade and industry. (Cf. Turetsky, op.cit., p. 128).

the application of this system such indirect measures as credit-policy and organised competition with private trade with a view to lowering prices were employed. But, on the whole, price-regulation remained feeble (although it proved strong enough to do away not only with the "scissors" phenomenon as between industrial and agricultural prices but also as between wholesale and retail prices.).

Towards the end of the NEP, however, price-fixing policy was tightened. The decisions of the February (1927) Plenum of the Communist Party proved to be a milestone in the history of Soviet price-planning. Apart from calling for a 10 per cent. decrease of retail prices and the publication of retail price-lists, the Plenum passed a (lengthy and clumsily worded) Resolution on Prices which ran as follows: "In the price problem all basic economic and, consequently, political problems of the Soviet State intersect. Questions of establishing adequate relationships between the peasantry and the working class, of guaranteeing the inter-connected developments of agriculture and industry, of the distribution of the national income, of the industrialisation of the U.S.S.R. and the strengthening of the working class both economically and politically, of ensuring adequate real wages, of the stability of the chervonets; lastly, of the planned increase of socialist elements in our economy and the further limitation of the private-capitalist elements therein, - all this is contained in the problem of prices. All this renders the price-policy the central economic and political problem of



Soviet economic policy for many years to come. The political and economic necessity <sup>for</sup> ~~of~~ lowering delivery prices forces us to direct, from this angle<sup>2</sup>, the whole of the industrial life of the coming period." <sup>1</sup>

In connection with this declaration the change in the 1923-constitution of the ~~Trusts~~ is noteworthy. According to the new statute (passed in 1927) "the Trust must be supervised by a Government body, named in its constitution, and conduct its operations on the basis of commercial accounting in accordance with planned tasks as confirmed by the Government body mentioned above.<sup>2</sup> One of the tasks of this body was the fixing of delivery prices which were to be binding upon the Trust. The XV Party Congress (which met from December 2-19, 1927~~7~~ and declared that the Restoration Era of the national economy of the U.S.S.R. had been terminated and the Reconstructive Period begun) proclaimed the policy of lowering delivery (ex-factory) prices on the basis of a reduction of industrial costs. From the beginning of 1927/28 delivery prices became less and less commercial prices in the sense of being determined by the autonomous decisions of the factory managers and their profit-seeking adaptation to the forces of the market, and assumed more and more the nature of fiat prices, i.e., decreed by the Government on the basis of manifold considerations and integrated with the growth of the economy as a whole.<sup>3</sup> This new departure was only possible by virtue of the increased

<sup>1</sup>Quoted by Prof. Prokopovitch's Bulletin, No. 131, October 1936, p.103., p. 103. Other parts of the Resolution quoted in Gorelik and Malkis, Soviet Trade, op.cit., p. 152.

<sup>2</sup>Bulletin, ibid.

<sup>3</sup>Cf. ch. discussing price-formation during the First Five-Year Plan.

hold of the State on economic processes. The system of inter-industrial relations was strengthened by widening the scope of general contracts between the Syndicates and the trading organisations and by the development of the system of preliminary orders. These two devices paved the way towards an integral system of price-planning, i.e., one which comprised all stages of price-formation.

In 1928 the so-called "double price lists" were introduced. Since price-regulation had become a constituent part of economic policy it had, by necessity, to adapt itself to the solution of the complex economic and social tasks of the Reconstructive Period. The more the State freed itself from the uncontrollable forces of the market and the more output and assortment of commodities was extended, the greater became the need to stimulate the production of certain lines of goods with the object of reconciling the interests of industrialisation with the demands of the working consumers for the prime necessities of life. It became, in effect, imperative to subsidise certain branches of the heavy industries and to sell some goods of common demand below cost. The system of the "double price lists" was designed to meet and to reconcile the interests of industry and trade. Its conception was fairly simple and amounted briefly to this: a differentiated price list was constructed for settlements between the Syndicates and their industrial suppliers, while a unified price-list was issued for dealings between the Syndicates and the trading agencies. The differentiated price list took

into account the specific conditions of production for the various goods in different districts and factories; it was based on the actual cost of production of the different enterprises plus a "normal" rate of profits. The commercial or trading price list, on the other hand, worked with average prices and thus ~~insured~~ unified prices for the same products within fairly wide zones. The average, however, was not an arithmetical but a "socially-weighted" one, the "weighting" being determined by the interests of the broad masses of consumers and the tasks of industrialisation.

In those days the Government tried to induce the factories to experiment with various substitutes for raw-materials. With the help of the "double price lists" the price-raising effect of the introduction of the costly substitutes could be "spread" and thus rendered more popular with the consumers. The "social weighting" of the commercial price list was accomplished in such a way as to offer goods of prime necessity below cost if required and correspondingly to increase the prices for luxuries and semi-luxuries (~~handled~~ by the same Syndicate) which were demanded by the more well-to-do classes of consumers. On the side of industry this system prevented the managers from concentrating on the more profitable lines of production to the detriment of the less profitable but economically more important goods, since all lines of production could artificially be made equally profitable. In this manner the system added to greater discipline in the fulfilment by the Trusts of their

productive programmes.

Thus the "double price lists" fulfilled the following functions: (1) they protected certain backward industries and subsidised new lines of production by means of gathering in real values from the consumer, but at the same time they protected the interests of the poorer consumers by means of "socially" weighting the unified prices for consumers' goods; (2) they shaped demand in certain directions and helped to plan the assortment of goods; and (3) they established a close link between the wholesale and the retail prices.

In 1929/30 the system of "double price-lists" operated in the metal, textile, silicate, timber and some other industries. With the introduction of the Credit and Taxation Reforms of 1930 it had to be modified.

## CHAPTER IV

COMMERCIAL PROFITS AND  
COMMERCIAL POLICY



COMMERCIAL PROFITS AND  
COMMERCIAL POLICY

The principles of economic and commercial policy evolved gradually and by way of a bitter contest of various and often divergent opinions. Many of the leading Communists held the view that the main trouble and the chief danger of the NEP lay in the adaptation of industry to the whim of the peasant market. This entailed, so the critics held, the impossibility of a rapid industrialisation. Now, the essence of the market and of private trade certainly presented grave dangers of social stratification; besides the forces of private capitalism infected the nationalised industry with their acquisitive spirit. But what was to be the alternative to the policy that had been inaugurated? We have analysed the various methods by which the State tried to subject the market to its regulative influence and how it tried gradually to solve the salient contradictions of the NEP period by holding the capitalist forces in leash and at the same time by transforming the productive relationships between town and country. But while the stimulus for this transformation emanated from industrial production, the medium by which it could be transmitted to the countryside was the market which likewise fed industry with precious raw materials. This situation reveals the difficulties of State economic manoeuvring. In fact, market-problems overshadowed at times all other "weak spots" of the Soviet economy.

Thus, a commercial policy was evolved as a separate branch of economic policy. We have dealt

with some of its more important manifestations, like the regulation of the agricultural and industrial markets and <sup>of</sup> price-policy. It remains to touch very briefly on the question of how all these various measures were co-ordinated and subjected to the "leading link" of economic policy, viz., the advancement of industry.

One important task of the Soviet Government's commercial policy was the re-distribution of commercial profits with a view to (1) tapping an additional source of financing industry and (2) preventing the emergence of a new social class of commercial capitalists.

As regards the former task it was essential to ascertain the total commercial profits in the country. Such estimates were attempted in the difficult years of 1922/23. Larin, after a very careful investigation, arrived at the figure of 2,600 million gold roubles for the gross profits of trade as a whole.<sup>1</sup> This would have amounted to a retail price-addition of 40 per cent on the average (!), a much higher figure than that quoted by Zalkind for the following year.<sup>2</sup> After making various adjustments and due allowances for the private merchants' own consumption, Larin calculated the net profit of the private commercial sector in 1922/23 at 300 million gold roubles (a figure which, in his opinion, was a very conservative estimate). Larin claimed that this net accumulation of the "NEP-men" could be conveniently taken away by

<sup>1</sup> Larin, *The Lessons of the Crisis and Economic Policy*, Moscow 1924, (R), pp. 17 et seq.

<sup>2</sup> Cf. statistics on p. 196

the State without causing any harm to trade and economic activity in general. This transfer would not diminish the consuming power of the new bourgeoisie, but simply curtail such harmful financial operations as usury, speculation with foreign exchange, purchase of smuggled luxuries and investments in valuable objects. The appropriation of these funds (the "peaceful" expropriation of the expropriators, as it were) should, according to Larin, <sup>have</sup> been used for the purpose of raising industrial wages which at that time were at the subsistence level. In this way, by increasing not only the intensity of demand but also by creating a new demand for industrial crops (cotton, sugar beet) and for better foodstuffs like dairy products (that would induce agriculture to change its so unfortunate cereal-producing character), the most salutary results on the country's industrialisation could indirectly be achieved. Larin was at great pains to show that the policy he advocated did not impair the "smytchka", but that on the contrary it strengthened the alliance between workers and peasants by raising rural purchasing power. The main point of Larin's proposals was, of course, the contention that it would have been particularly detrimental to achieve the reduction of delivery-prices of industrial products by wage-stabilisation or even by wage-cuts. He maintained that price-reduction and wage-increases could go hand in hand, provided energetic steps were taken to lower industrial costs. Now, there was certainly a constant increase of money-wages during the NEP since

the passing of the Monetary Reforms. But the policy of simultaneous cost-reduction and wage-increases proved very difficult indeed because labour was the main cost-item in many industries.

A further task of commercial policy was the reduction of the share of trade in the whole of the national economy. Apart from doctrinaire reasons - Marxism regards trade as such as an essentially unproductive (though necessary) economic activity - all economic researchers arrived at the same conclusion, viz., that trading profits of the socialised sector were obviously excessive. The attitude towards profits seems to have been that, in so far as profits were realisable in a particular branch of economic activity without damaging the interests of the economy as a whole, they should materialise in industry and that it was sufficient for trade to cover its costs.<sup>2</sup>

A few words now about the attitude of the State towards external trade and the reconciliation of interests and requirements of foreign and domestic commerce.

The first period of the NEP was characterised by the absence of any marked degree of co-ordination between the internal and foreign markets, as exemplified

<sup>1</sup>Comp. Book III. p. —

<sup>2</sup>"The dividend paid by the State internal trade into the Treasury was surprisingly small, being only 23,800,000 rubles in the budget of 1928-9: the explanation being that the remuneration left to the State trade apparatus has been reduced intentionally with a view to allowing the maximum share of profit to the State industry. For this reason the State revenue derived from this source diminished in comparison with preceding years (26.5 mill. r. in 1927-8 and 28.1 mill. r. in 1926-7)" (Paul Haensel, The Economic Policy of Soviet Russia, London 1930, p.141).

by the non-existence of a centralised Commissariat. One explanation of this attitude is, of course, the new "laissez-faire" policy which the NEP ushered in. Besides, it was being maintained in the first years of the period under review (1921/22-1923/24) that the holding capacity of the urban market for agricultural produce was so limited that the exportation of agricultural produce could proceed without much harmful effects. / An additional factor in the situation was the exceedingly lucrative character of the export of agricultural products at the low "scissors"-prices and the importation of industrial goods at the low world-prices. Thus the main conflict as between the interests of foreign trade and the needs of internal economic re-adjustment arose in the sphere of agriculture. Whereas a speedy liquidation of the "scissors"-crisis demanded the raising of the agricultural price-level, high agricultural prices hampered the operations of the Soviet export agencies. Although export-policy vacillated from time to time according to internal economic conditions (e.g., scarcity of consumers' goods necessitating the temporary importation of foodstuffs; volume of harvests etc.), its main tendency since 1922/23 seems to have been to achieve a favourable

/That may have been so, but the fact remains that there was a great unsatisfied demand for bread in the cities. The recrudescence of the category of "effective demand" was one part of the price which the Bolshevik planners had to pay for their re-orientation of 1921.

2 The poor harvest of 1924/25 forced the Authorities to prohibit temporarily all export of grain and even led to grain imports. At the same time manufactured goods were imported in considerable quantities, so as to stimulate agricultural production and increase the marketable stocks of the countryside. All this undermined the "productive" structure of Soviet imports.



balance of trade by forcing exports, so as to be able to purchase machinery and equipment requisite for the industrialisation of the country. And since in the first years of Soviet Russia's contacts with the outer world her main exportable commodity was grain, the stabilisation of agricultural prices at home had often to be sacrificed in the interests of the so-called "productive" imports (i.e., the importation of means of production etc.) Such a policy, of course, did not fail to hit the peasantry, to spread discontent in the countryside and to slow up the evening-out of the major disproportions in the Russian economy.

When agricultural prices at home began to recover, while world prices for Soviet exports fell and the lucrativity<sup>ness</sup> of grain exports declined in consequence, there were even attempts at lowering internal collecting prices of grain so as to keep up exports ! This produced very harmful economic effects. Marketable stocks of grain fell sharply, export operations declined and an unfavourable trade balance was the outcome.

This unsatisfactory development was rendered more acute and more difficult of solution by the lack of co-ordination between the two Commissariats of Trade, on which we have already had the occasion to make some comment. The Narkomvnutorg was divorced from the Narkomvneshtorg and there was a pronounced lack of unity in the regulative measures of the two Commissariats. Their fusion, in 1925, had its good effects, especially in connection with price-policy which came to be decided upon in the light of the

exigencies of both external and internal trade. Indiscriminate dumping of agricultural produce was discontinued. The more the supply of the population was subjected to Government regulation and the more agricultural production recovered, the easier it became to maintain a satisfactory level of exports and the "productive" nature of imports without unduly restricting consumption at home. Thus, the Authorities succeeded in striking some kind of compromise between the interests of a foreign trade that would stimulate the development of the heavy industries, the interests of the peasants who clamoured for higher agricultural prices and the needs of market-"normalisation" which could never have been achieved from the industrial side alone.

OBSERVATIONS AND CONCLUSIONS

Concluding our survey of trade under the New Economic Policy, certain features of the development stand out clearly and are worthy of re-emphasis. The NEP was a policy of compromise and implied a tacit recognition of the creative forces of market-exchange. It was a risky policy, for the resuscitation of exchange in a socially heterogeneous economy held acute social and political dangers in store. Discussions within the Communist Party about the essence of the NEP were caused by the realisation of this fact, and account to a great extent for the vacillations in policy. But gradually Stalin's conception of the NEP gained ground, based, as it was, on limitation of capitalist elements and, at the same time, utilisation, as much as possible, of their services; on regulation of exchange and, simultaneously, on the gradual technical and productive transformations of the countryside.

A new economy was being created. While economic activity had been recovering on the basis of an exchange-economy, sufficiently strong contacts were being established between industry and agriculture in the form of newly devised organisational bonds (general contracts, delivery plans etc.), with the result that the services of the private middlemen could, after a while, be dispensed with almost entirely. One of the underlying ideas of the NEP was to get agriculture going again by means of the ordinary inducements of the market, but simultaneously

with that recovery to introduce new trading organisations (State owned or controlled) and to make agricultural production dependent not on the supply of privately managed handicraft production, but on the output of the nationalised industries. This necessitated intense industrialisation and utmost economy of all resources. In an impoverished country like Soviet Russia and in the absence of foreign financial help in the form which would have been compatible with the political régime, industrialisation and all the various subsidiary measures were bound to curb other branches of the State's economic activity (like trade) and re-act unfavourably on the standard of living of the people.

The economic reasons advanced for Stalin's industrialisation programme are fairly obvious, if one proceeds from the final goal of the Bolshevik Party, viz., the building up of a socialist and, thereafter, of a communist society, based on the most advanced mechanisation of all productive processes. The development of consumption goods' industries could not, in the long run, have ensured a steady growth in the volume of production. Furthermore, a complex and varied demand structure required a solid material basis and "roundabout" methods of manufacture.

In addition  
~~Furthermore~~ it must not be forgotten that the twin purpose of economic self-sufficiency and defence (on which the economic policy was to rest in the subsequent years of Integral Planning) influenced the actions of the Soviet Government all along.

/Cf. discussion of market problems and price trends under the First Five-Year Plan. ✓ — ch. 11.



A particularly potent reason for industrialisation under the conditions of the NEP., however, was contained in the emphasis that the one-sided growth of consumption goods' industries would have implied the preponderance of trading capital over industrial capital. Even if this new trading capital would have belonged to the nationalised industries it would ~~have~~ much more easily have aligned itself with the forces of capitalism. on whose services it would have depended. The State would gradually have lost its regulative control over economic life. Conversely, it is beyond dispute that industrial capital could (under the then prevailing conditions) be formed by State action alone and was in consequence much more open to supervision and planned direction.

Naturally, consumption could not be neglected altogether, for on its growth depended the recovery in productivity. But since the Soviet Government had to a certain extent restored capitalism, it thought that it would be just as well to strike a bargain with its most bitter foe. And, while it concentrated on the restoration of fixed capital, it left the growth of agricultural production to private initiative. But after a while the State stepped in with its own trading apparatus not only with a view to preventing the social and political consolidation of a new merchant and kulak class, but also with the object of stopping the economic abuses of private enterprise, viz., speculation and crises. Thus, while the Soviet Government admitted the superiority of private capitalism as regards the speedy restoration

of agriculture and the consumers' goods industries, it was resolved to combat capitalist abuses and ultimately to displace private commerce altogether.

As we have seen, the growth of socialised trade was beset with numerous problems which can be grouped under three main headings: economic, organisational and human.

The chief economic aim of the Authorities was at all times the development of productive forces and this determined their attitude towards the market. The problem was, at any given moment, thus to regulate the market <sup>so</sup> as to achieve the maximum volume of output in a manner that would not in any way prejudice the interests of the working class. It is clear that such a policy was very difficult to achieve so long as private enterprise dominated commerce. Therefore the Russian Communists had to become traders themselves.

The organisational problem consisted in establishing an efficiently run socialised trading system able not only to compete with private commerce, but also to replace its functions, and to devise a rational socialised trading unit. This problem was closely connected with the human aspect of the matter. The perusal of relevant documents reveals a whole mire of inefficiency and corruption among the employees of socialised trading.

Tangible results of all attempts at solving the last two problems remained rather meagre and, while the State, endowed with superior political power, had managed to subdue the elements of capitalism and

to restore fairly quickly the productive forces of the country, exchange and distribution continued to be "weak spots" in the Soviet economy.

B O O K II

THE SECOND DECENNIIUM: FROM RATIONING  
TOWARDS "CULTURED" SOVIET TRADE

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## I N T R O D U C T I O N

## THE TRANSITION TO INTEGRAL PLANNING



The task of restoring Soviet industry was more than accomplished by 1928.<sup>1</sup> The volume of industrial production of 1927/28 exceeded that of 1913 by the considerable figure of 26 per cent. The Soviet Government continued boldly with its industrialisation programme and had, since about 1926, commenced the reconstruction of Soviet industry, i.e. the creation of new heavy industries with fresh plant and equipment. But the heterogeneous nature of the NEP threatened to jeopardise their efforts in this direction. The lagging behind of agriculture constituted the major problem of economic disequilibrium. On the other hand, the intensification of the programme of industrialisation meant in effect (1) a diversion of manpower from agriculture to industry and (2) an increase in the demand for foodstuffs and agricultural raw-materials. Thus, the Russian countryside became not only the seat of a disquieting growth of unreliable (if not hostile) social classes, able to paralyse Soviet industrial activity simply by withholding their grain from the urban settlements, but it also proved to be unable to serve the requirements of Russian industry. Needless to say, both political and technical factors were closely inter-related and conditioned each other mutually. The problem of the Soviet village

<sup>1</sup>W.P. and Z.C. Coates, *From Tsardom to the Stalin Constitution*, London 1938, p. 92. Comp. History of the Communist Party etc., op.cit., p. 286. Pollock, op.cit., p. 170, says that the restoration of Soviet economy to the pre-war level was completed at the end of the financial year 1925/26, but admits that at that time many important branches of industry had not reached that level. It is therefore safer to take the end 1927 as the beginning of the Reconstructive Period.

had therefore to be solved in its entirety. The so-called "grain difficulties" of 1927-28 convinced the Authorities of the necessity <sup>of</sup> ~~to~~ <sup>ING</sup> extend their re-constructive programme to the countryside.

Stalin, in an interview given in summer 1928, summarised the situation thus:

"The output of industry is increasing, the number of workers is increasing; the towns are growing, the districts in which industrial plants (such as cotton, flax, beet, etc.) are cultivated are also extending. All these make increasing demands on grain - for marketable grain - but the yield of our marketable grain is ~~only~~ growing frightfully slowly. The only solution of the difficulty is to transform the small individual backward farms into collective farms properly equipped with modern machinery and working on scientific principles."

It would lead too far to describe the various phases of the collectivisation campaign and the inter-Party discussions on this issue. We shall confine ourselves to the rôle which trade played in the changing nature of the countryside.

The essence of the Second Agrarian Revolution was, of course, not re-organisation of exchange but that of production; its outward feature was political struggle. The importance of commerce in facilitating the collectivisation of agriculture should not be minimised, however. First attempts <sup>at</sup> ~~of~~ linking up agriculture with industry on the basis of contractual deliveries and exchange of produce, had been under-

/Quoted by W.P. and Z.K. Coates, op.cit., pp. 97-98.

taken during the NEP. This system was being extended in the period immediately preceding actual collectivisation. It was a most important preparatory step in the direction of changing the productive relationships of the village and, although it is doubtful whether the middle peasants showed an increasing disposition to dispense with the services of the private middlemen and to deal directly with the nationalised industry (as was being made out on the official side), it certainly enhanced the State's grip on agriculture.<sup>1</sup>

Stalin was at pains to emphasise that the system of contracts was not inconsistent with the NEP, that it had originated in the NEP and that it represented merely large-scale buying operations under close supervision of the Government. For Stalin, the system of contracts was a bridge to the road of collectivisation. He regarded it not merely as an effort to increase the supply of marketable grain, but as a new form of Smytchka between the working class and the main mass of the peasantry.<sup>2</sup> That system had thrived in the case of industrial crops, but now the Party was intent on making it the universal form of the acquisition of grain.

Such a task remained impracticable, however, so long as the kulaks, the "bloodsuckers and sworn enemies of Socialism" (as one called them then), retained their leading positions. As in War Communism, the law of the preservation of power compelled the Bolsheviks to extirpate a social class whose existence

<sup>1</sup> For details of the economic significance of the contract system cf., e.g., Stalin, *Leninism*, op.cit., Vol. II, pp. 90 et seq.

<sup>2</sup> Ibid., pp. 166-67.

threatened to undermine the régime. The decision to proceed with large-scale collectivisation was announced by Stalin in his well-known speech delivered at the Conference of Marxist-Agrarians on December 27, 1929. This far-reaching decision taken after bitter Party struggles, accompanied by failures, partial retreats, violent opposition of the kulaks and inflicting boundless human tragedy, ushered in the end of the NEP and the beginning of Integral Planning. /

The rather rapid transition to a new era began with the launching of what the Russian planners called the "offensive along the whole front", i.e. the widening of State-supervision to the countryside with a view to ousting what was considered an obsolete economic system and a rapacious social class and replacing it by a system of communal cultivation. The Second Agrarian Revolution, in so far as it concentrated the mass of the peasantry into compact producers' co-operatives and thus destroyed the old market-links between town and village, had probably greater repercussions on the evolution of Soviet trade than the renewed attack against the private trader immediately before the beginning of the First Five-Year Plan. It was by means of both methods that

#### Leninism

/Cf. Stalin, Vol II, p. 357. The period which we have termed "Transition to Integral Planning" refers to the years 1927-29. In the official terminology it seems to have several designations. Apparently the official classification is based on a double evaluation of the period, viz., according to (1) productive changes ("Transition to Reconstruction") and (2) the politico-social framework of productive relationships ("End of the NEP", "The Beginning of Socialism" etc.) We have preferred to give the period our composite name. (Cf. our remarks on the classification of the NEP-period, p.86).

Stalin was intent on sending the New Economic Policy "to the devil".<sup>1</sup>

Briefly speaking, the sphere of exchange under the period of transition to Intergal Planning was characterised (apart from the already mentioned general inculcation of the system of contracts as "the basic method of the new form of goods-exchange between town and country" (Stalin) ) by a further socialisation of the commercial turnover and a marked growth of co-operative trade. This new commercial link between industry and agriculture facilitated the extension of planning beyond industry to the multitude of collective peasants' farms and the remainder of individual husbandries.<sup>2</sup> The beginnings of Soviet trade proper<sup>3</sup> were being laid, i.e., of a large-scale regulated interchange of commodities without capitalist middlemen and based on the reciprocal growth of productive forces in town and country.

<sup>1</sup>"Asked what he meant when he said that the New Economic Policy should be "sent to the devil", Stalin answered vaguely: "We shall have sent it to the devil when we have no need to tolerate even a limited amount of free trade, when we have organised an economic union between town and village by an interchange of commodities." (L.Lawton, op.cit., Vol. II, p. 523).

<sup>2</sup>By linking up agriculture with industry the State was in a position to develop agriculture according to plan (supply of seed and fertilisers, determination of the volume of production, price-regulation etc.).

<sup>3</sup>Cf. Book III.





## P A R T I

THE FIRST FIVE-~~YEAR~~ PLAN

## CHAPTER I

## GENERAL SURVEY

The First Five-Year Plan was begun on October 1, 1928, and was completed by December 31, 1932, i.e., in four and a quarter years. Much has been written on its aims, character and execution and there is thus no need to engage in repetition.<sup>1</sup> The bold venture found severe critics, especially outside Russia, but in retrospect there is no doubt that the Plan was, on the whole, successful in building an up-to-date and powerful heavy industry (although at an enormous cost, both human and material) and in setting up a novel type of economic organisation.<sup>2</sup>

<sup>1</sup>Of the official publications on the First Five-Year Plan, the Summary of the Fulfilment of the First Five-Year Plan for the Development of the National Economy of the U.S.S.R., Moscow 1933, is probably the most useful.

<sup>2</sup>It is impossible to appreciate the changes brought about by the Second Five-Year Plan without taking into account the international background against which it was carried out. The Japanese aggression against Manchuria in 1931-32 marked the beginning of a steady deterioration in international relations. The Soviet Government thought its external security threatened and considered it necessary to hurry through the Plan and to pay particular attention to the needs of defence. The latter task became one of the major objectives of the Plan and the determined industrialisation must in part be regarded as a means of making Soviet Russia strong and independent. As Stalin declared at the Joint Plenum of the Central Committee and Central Control Commission of the C.P.S.U. on January 7, 1933, "the fundamental task of the Five-Year Plan was to transform the U.S.S.R. from an agrarian and weak country, dependent upon the caprices of the capitalist countries, into an industrial and powerful country quite independent of the caprices of world capitalism." (From the First to the Second Five Year Plan, Moscow 1933, p. 14). The needs of defence required very considerable allocations of economic resources and intensified the strain imposed on the population. The failure to fulfil the programme of general industrial output to the full - it was only accomplished to the extent of 93.7 per cent. - "is to be explained by the fact that in view of the complications that arose in the Far East, we were obliged hastily, in order to improve the defences of the country, to transfer a number of factories to the production of modern weapons of defence. ... the transfer resulted in these factories

It was evident from the outset that the envisaged capital construction would by necessity create difficulties in supplying the population with necessities. But before proceeding to analyse the various "market-problems" which were created by the First Five-Year Plan, we propose to delineate the outstanding trends of trade during this period.

The most striking development was the division of State-controlled commercial activity<sup>1</sup> into a regulated (contractual) goods-exchange between town and country on the one hand and into a system of rationed supply, rather reminiscent of the days of War Communism, on the other.<sup>2</sup>

The new system of distribution did not grow overnight. The transformations which we have indicated above took some three years (from 1929 to the middle of 1932) to assume a definite shape. During these years semi-compulsory "contractation" gradually came to comprise the preponderating share of the flow of goods from the country to the towns and in the towns the system of "closed" supply, differentiated according to the social and economic status of the recipient, was being elaborated. At the end of this period the trade network as well as the turnover of the co-operatives and of State commercial organis-

(continued from previous page): ceasing to turn out goods for a period of four months, and this could not but affect the fulfilment of the general programme of output of the Five-Year Plan during 1932." (Ibid., p. 23).

<sup>1</sup>By that time trade was already purged, to a great extent, from private elements.

<sup>2</sup>Both aspects of the change will be discussed later.

ations underwent a marked extension.<sup>1</sup> From the beginning of 1932 there was a further campaign against the remnants of private commerce. At the conclusion of the First Five-Year Plan it could really be maintained that private commercial activity had been eradicated for good and all.<sup>2</sup> At the same time began

<sup>1</sup>The following principal results in this respect can be gleaned from the official Summary of the First Five-Year Plan (op.cit., pp. 208 et seq.): the number of trading units of the socialised trading system (co-operative and State) increased during the period under review by 155, 700 (91,300 in the villages and 64,400 in the towns). On January 1, 1933, the retail system of co-operative and State trade, including the trading system of the collective farms, had 312,400 trading units. Trading units were enlarged and specialised and department stores created. A large number of trade enterprises was shifted from the centre of cities to the working class suburbs. The number of members of consumers' co-operatives rose from 24.7 million on January 1, 1929, to 73.1 million on January 1, 1933, i.e., to about three-fourths of the adult population of the U.S.S.R. The number of co-operative trading units more than doubled. The State trading system which comprised 14,700 trading units on January 1, 1931, grew to 70,700 trading units at the conclusion of the Plan, i.e., it increased almost five times in five years. This development took the form both of opening of retail stores by Syndicates of the State Light and Food industries for the direct sale of commodities produced by these industries and also of the opening of large department and specialised stores.

<sup>2</sup>In 1928, the private trader controlled 20 per cent of the total circulation; in 1930 this figure fell to 5.6 per cent; while by 1931 the percentage of private trade fell still lower and the turnover of the private trade had become a negligible quantity. The process of replacing private trade by socialized trade ... has been a highly intensive one. ... The following are the numbers of private trading units, trading only in shops (in thousands):

January 1, 1929	163.9
January 1, 1930	47.1
January 1, 1931	17.1

By the beginning of 1932, private retail trading at fixed places had entirely disappeared. The function of the private trader as a middleman has thus been eliminated; the remnants of this class degenerated into speculation which is prohibited by law. ... The abolition of private trade represents a tremendous victory of socialism. It signifies the elimination of private capitalist trading profit; it frees the working population from the necessity of buying consumers' goods at exorbitant prices for the benefit of parasites and ensures the trade connection between the working class and the peasantry being strengthened and raised to a higher level." (Summary etc., op.cit., pp. 207-208).



the development of Kolkhoz trade and of decentralised collections<sup>1</sup> (although centralised collections of agricultural produce retained their dominant importance). An outstanding achievement of the Plan was the creation of an extensive network of public catering establishments.<sup>2</sup>

The far-reaching changes in the national economy as a whole and in trade in particular received divergent interpretations by the different sections of the Communist Party. In the domain of trade those who sympathised with the views of the Right Opposition (which advocated the retention of the essentials of the NEP) tried to evade the new Government regulations as regards differentiated supply, neglected the decrees concerning the lowering of prices and sold out, without authority, stocks of goods which had been ear-

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<sup>1</sup>"According to the estimates of the purveying organizations, in 1932 the co-operatives and State organizations alone procured 120,000 tons of meat, 130,000 tons of milk and dairy products, 360,000 tons of potatoes, etc., on the collective farms and at collective farm markets." (Summary etc., op.cit., p. 217).

<sup>2</sup>The Soviet Government paid great attention to the development of public catering which it regards as an important method for the transformation of the mode of living of the masses. During the first quinquennium the number of establishments of the public catering service in the towns in the system of the Centrosoyuz and the People's Commissariat of Supply had increased from 1,500 to 13,982, including factory-kitchens, whose number increased from 3 to 106. The number of workers served by these public catering establishments has increased in the urban sector from 750,000 at the end of 1928 to 14.8 million at the end of 1932, i.e., twenty times. The total turnover of the public catering system, in both the urban and rural sectors, increased from 102 million roubles in 1928 to 4,385 million roubles in 1932 (Ibid., pp. 214 et seq.)

marked for specific purposes. The adherents of the Left Opposition (which identified the existence of goods-exchange and money with capitalism) availed themselves of the new economic orientation to turn, as quickly as possible, the trading organisations under their charge into rigid and "mechanical" distributing centres and to treat the temporary measure of rationing as an example of an ideal socialist distribution.<sup>1</sup> Both these tendencies were criticised by the Government on many occasions.<sup>2</sup> But it is doubtful whether they were caused merely by doctrinaire allegiances. It seems that in many cases they could simply be explained by the utter perplexity of the trading managers and co-operatives officials brought about by the abrupt changes of policy. After a great deal of trouble the members of a revolutionary movement had grasped the rudiments of business, they had (to a certain extent) "learned how to trade"; now they had to re-adapt themselves to new forms of distribution. The proper appreciation of the new policy spread but gradually.

<sup>1</sup>Cf. infra, our discussion on selective supply under the First Five-Year Plan.

<sup>2</sup>See e.g., the Resolution of the Joint Plenum of the Central Committee and the Central Control Commission of the C.P.S.U. (B.), December 1930, concerning the work of consumers' co-operatives, which criticised the NEP-spirit of some societies; the Circular and Appeal of the Sovnarkom and the Centrosoyuz, dated May 12, 1931 scoured the utopian attempts to proceed at once to direct commodity-distribution. In its opinion the objective conditions for this drastic change were not then present and the co-operators were therefore warned not to interpret the elimination of private trade as the elimination of trade as a whole. (Both documents quoted in Economics of Soviet Trade, op.cit., p.104 and p. 105).

## CHAPTER II

### THE ORGANISATION OF TRADE UNDER THE FIRST FIVE-YEAR PLAN

THE ORGANISATION OF TRADE  
UNDER THE FIRST FIVE-YEAR PLAN

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Mr. Hubbard <sup>given</sup> has ~~rendered~~ a remarkably lucid account of the framework of Soviet trade under the First (and Second Five-Year Plans and we shall refer to it whenever it becomes necessary to supplement the official Soviet material.

Retail Trade.

At the beginning of the first quinquennium the co-operative system played quite clearly the dominating rôle in the socialised sector. In 1927/28 all types of co-operative enterprise accounted for 60.3 per cent. of the total commercial turnover. In 1928/29 the percentage came to 66.5. The corresponding figures for State trade were 14.9 and 17.4 per cent. In the years 1929/30 and 1931 the relative share of the co-operatives continued to rise, reaching 70.6 and 73.3 per cent. of the total socialised trade turnover, while State trade grew from 23.4 per cent. in 1929/30 to 26.7 per cent. in 1931. In 1932 there was a marked reversal in the trend. State trade jumped up to 36.6 per cent., while co-operative trade dropped to 63.4 per cent. of the socialised turnover. The rapid development of State trade was especially noticeable in the villages, which used to be the stronghold of the co-operatives. Here State trade increased its hold from 18.6 per cent of the socialised turnover in 1931 to 33.1 per cent. in 1932.<sup>2</sup>

The almost complete elimination of private commer-

<sup>2</sup>All figures taken from Economics of Soviet Trade, op.cit., p. 112 / Soviet Trade and Distribution, op.cit.

cial activity and the consequent need to fill in the gaps offers but a partial explanation of the extension of State trade in the last years of the First Five-Year Plan. The chief impetus came from the introduction of rationing which (as will be shown later) brought manifold and difficult distributive problems in its wake. These the co-operative system was unable to tackle unaided.

The co-operatives were, of course, ideally adapted to rationed distribution by reason of their membership-basis and the valuable experience which they had collected in the days of War Communism. The State shops, on the other hand, "had been accustomed to sell to all and sundry." After the introduction of rationing one group of State shops continued to deal in so-called "free" (i.e., non-rationed) goods, such as cultural articles, luxury goods, haberdashery, whereas another group that had specialised in wares which had been put on rations (textiles, clothing, boots etc.) was converted into what was described as "closed" shops, selling to a fixed clientele on production of the appropriate ration books. According to Hubbard most "State shops in the towns were under the State Department for Retail Trade from whose initial letters G.O.R.T. the shops took their name. As a general rule G.O.R.T. shops were organised for the upper classes, Government officials, administrative officials in the industrial Trusts, banks, etc., the higher technical personnel such as engineers, scientific workers, university and high-school teachers



and so on. Each category, at least in the big centres, had their own special G.O.R.T. shops in which both the quality and quantity of the rations varied, the best being those supplying members of the Government, People's Commissars and the leading members of the Communist Party. Another form of G.O.R.T. was the "Insstab" for supplying the needs of foreign experts employed in State enterprises." / About 1930 the Commissariat of External Trade opened the so-called "Torgsin" shops which sold goods without limitation exclusively against valuta, precious stones and jewellery.<sup>2</sup> Towards the end of the First Five-Year Plan "commercial" shops began to make their appearance. Here goods of daily demand could be obtained without ration-cards, but at very high prices. The total turnover of these shops remained small, however, but showed a pronounced growth towards the close of the period under review.

In the towns the influence of the co-operative shops was considerable. They were divided into two classes, viz., "general town shops for the lower ranks of Government officials, clerical staffs, municipal workers, etc., and the special factory shops for the exclusive supply of the workers in a single enterprise".<sup>3</sup> The noticeable contraction in the number of urban co-operatives from 69.9 per cent. of the socialised turnover in 1931 to 61.6 per cent. in 1932 with a simultaneous expansion of the urban State trade network

/Hubbard, Soviet Trade etc., op.cit., pp. 38-39.

<sup>2</sup>Torgsin prices were calculated on a gold-basis.

<sup>3</sup>Hubbard, Soviet Trade, etc., op.cit., p. 39

from 30.4 per cent. to 38.4 per cent<sup>1</sup> was due to the setting up, in 1932, of a new State organisation called "Department for Workers' Supplies" (O.R.S.) to whom<sup>2</sup> a great number of factory co-operatives (Z.R.K.) was transferred. This decision was taken at the end of the period, viz., in December 1932.<sup>2</sup> The meaning and purpose of this re-organisation will be discussed later. This step had certainly more than mere formal significance.

"The O.R.S. shops were put under the management of one of the factory directors, generally the Senior Deputy Manager, who was responsible for obtaining supplies, issuing ration books and the general administration of the shop. In most cases the factory O.R.S. also included dining-rooms for the factory staff and workers. Meals taken in any communal feeding establishment were in addition to the worker's ration and did not form part of it."<sup>3</sup>

It should not be imagined, however, that this reconstruction of workers' supply proceeded more or less instantaneously. In point of fact the Z.R.K. and the O.R.S. continued to co-exist for ~~quite~~<sup>some</sup> considerable time. When the two decrees of the Central Committee of the C.P.S.U. and of the Sovnarkom, dated December 4 and 19, 1932<sup>4</sup> were passed, 1,243 Z.R.K. functioned within the system of consumers' co-operatives. Of these, 346 (i.e., 28 per cent.) belonging chiefly to the more important industrial enterprises

<sup>1</sup> Economics of Soviet Trade, op.cit., p. 112.

<sup>2</sup> W. Nodel, Supply and Trade in the U.S.S.R., p. 85. (London, 1934).

<sup>3</sup> Hubbard, Soviet Trade etc., op.cit., p. 39.

<sup>4</sup> Economics of Soviet Trade, op.cit., p. 253. These are the two decrees by which the re-organisation was carried out.

were soon abolished. Where the Z.R.K. remained, their internal administration was altered, so as to make them subordinate both to the factory manager and to their respective co-operative centres.

This organisational dualism was prompted by the following considerations: in enterprises of major national importance the supply of workers was deemed to be the exclusive concern of the factories themselves, whereas in lesser economic units, while supply was linked up with production, the right of members to elect their own management - subject to approval from the higher co-operative organisation - was preserved. In the middle of 1933 new Z.R.K. were established in a number of Government offices and seats of learning.<sup>2</sup> There is no doubt that in the sphere of workers' supply, as in every other sphere of economic life, the Soviet Government consciously adopted the attitude of an experimentalist. It was intent on discovering empirically under what circumstances either of the two forms of workers' supply within, and attached to, the various centres of production, was the most <sup>re</sup> appropriate to existing conditions. The Authorities realised, of course, that the different schemes of re-organisation which belong to the period under review were bound to be of an extremely transitory nature due to the swiftness with which productive forces developed and also because of

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<sup>1</sup>The factory managers were given the right to influence decisively the distribution of the goods-funds in question.

<sup>2</sup>Economics of Soviet Trade, op.cit., p. 254.

sundry miscalculations and unforeseen factors which made constant organisational and administrative adjustments imperative.

Extremely interesting are the efforts to induce the organisations of Workers' Supply to utilise local resources: (<sup>this</sup> ~~which~~ will be discussed later in greater detail). This tendency towards local self-sufficiency and decentralisation was originally one of the many attempts and designs to mitigate the acute "deficit" of consumers' goods which made itself felt under the First Five-Year Plan. But every negative measure seems, after a time, to be turned into a positive element by virtue of the "Soviet dialectic". Nowadays, when goods are relatively plentiful, local and regional self-sufficiency is an important feature of economic planning in Soviet Russia.

In the villages the bulk of retail trading was handled by the rural co-operative organisations, although at the end of the First Five-Year Plan there was (as we have noted) a rapid advance of State trade in rural settlements.

Co-operative retail trade was carried on by agricultural producers' and consumers' societies. The most important were, of course, the consumers' societies, but the other types of co-operation were directly responsible for quite a considerable share of commercial activity in the villages. "The producers' co-operatives maintain a few stores for the sale of the kustarni products manufactured by the peasant artisans. These products are mostly linen and embroidery and carved wooden objects, such as toys. But

the producers' co-operatives sometimes sell their products directly to the consumers. For example, a small artel of bakers will maintain both a bakery and a retail bakery shop. It is interesting to observe that prices at such bakeries are generally somewhat higher than the prices of similar baked goods sold at the consumers' co-operative shops. Agricultural co-operatives are responsible for a part of the retail marketing of directly consumable agricultural products, particularly of dairy products."

The attempts at rationalising retail trade (begun at the end of the NEP) were resumed during the First Five-Year Plan and with better partial results, it seems. The size and turnover of the average trading unit grew markedly, at least in comparison with <sup>that of</sup> private shops. Besides, the "releasing capacity" of retail trade was enhanced by such measures as the introduction of a "non-stop week", the lengthening of business hours, preliminary weighing and packing and the setting up of house shops which aimed at organising the supply of food products to tenants.<sup>2</sup> A great part of these rationalising efforts was, however, "neutralised" by the weaknesses of rationed supply which will be reviewed below. The trade network remained inadequate; only in the second half of 1931 was there a noticeable improvement in this respect. The tendency towards a more even distribution of the network in the cities and a more rapid growth of trade organisations in backward and distant areas continued to exert itself.

<sup>1</sup>C.B. Hoover, *The Economic Life of Soviet Russia*, New York, 1931, pp. 131-32.

<sup>2</sup>Cf. *Economics of Soviet Trade*, op.cit., p. 112 and Nodel, op.cit., p. 51.



The organisation of wholesale trade during the First Five-Year Plan was particularly susceptible to "Leftist" tendencies which became very pronounced in the years 1930-31. Their influence went so far as to frustrate one of the main objects of the 1929-reform of industrial administration. By virtue of a decree dated December 5, 1929, the system of Syndicates and chief administrative boards of industry, including their ramified wholesale machinery, were abolished and new organisations, the so-called Industrial Branch Combinations<sup>1</sup>, were created in their stead. They were charged not only with the technical re-organisation of production but also with the functions of supply, i.e., purchase and marketing. But owing to the "Leftist" moods of some of the responsible trade officials, the supply functions of the new organisations were artificially curtailed on many occasions. A similar process could be observed in the co-operative movement. The liquidation of the Provincial Unions and the creation of big regional societies took place in 1930. This meant, in effect, the suspension of co-operative wholesale depôts, "the individual consumers' co-operatives obtaining their stocks direct from the industrial Sbyty."<sup>2</sup> This arrangement proved, as Hubbard shows,<sup>3</sup> to be very harmful to the development of trade in general and was particularly detrimental to the interests of the consumer.

<sup>1</sup>For types of combinations cf. Arnold, op.cit., p.350 n. The new organisations were based on the principles of Business Management or Khozraschet (cf. below), i.e., had independent balances and accounts. <sup>2</sup>Hubbard, op.cit., p. 41. A "Sbyt" was a commercial department of an industrial Trust (its ~~per~~ the component part of a Combination). <sup>3</sup>Ibid., p.41.

The tasks of a properly organised Soviet wholesale trade will be ~~discussed in~~ <sup>referred to in</sup> another context. Here we may confine ourselves to a brief enumeration of the measures which Party and Government adopted with a view to counteracting "Leftist" practices.

The stagnation-period of wholesale trade under the First Five-Year Plan came to an end in the second half of 1931. This was to a great extent due to the "May Appeal" (quoted above).

The revival of wholesale trade assumed three main forms:

(1) The organisation of specialised wholesale supply bases under the various "productive" Commissariats. These bases were attached to the various industrial combinations.

(2) The organisation of wholesale centres for the express purpose of facilitating the sale of the "non-deficit goods", i.e., of goods whose supply was considered as assured.

(3) The organisation of inter-regional universal wholesale bases of the co-operative and State trade systems.

The Authorities also tried to bring about a more even distribution of the wholesale network, so as to avoid the concentration of wholesale trade in big cities or in regions where the various commodities were actually produced. But it is plain that such a

<sup>1</sup>Special wholesale depôts (Prombazy) were established under the Commissariats for light industry and the Commissariat for food industry. Hubbard (op.cit., p. 43) enumerates them in detail.

<sup>2</sup>Economics of Soviet Trade, op.cit., p. 121.

thoroughgoing re-modelling of trade in an enormous, both culturally and geographically "uneven" country as Russia is such a gigantic task that it cannot be accomplished over-night, as it were. Failures in organisation continued, the assortment of goods remained unsatisfactory, the principles of economic accounting were not complied with; especially the system of transmitting commodities ran counter to the principles of a rational and economical flow of goods. It happened that goods travelled happily all over the Union in order to arrive at their ultimate destination not very far from the place whence they had been originally dispatched. It is admitted that many of these defects of wholesale trade have not been overcome to this day.

#### Regulative Organs.

At the beginning of the First Five-Year Plan the country's internal trade was under the supervision of the Narkomtorg. Subordinate Republican Commissariats controlled trade activity in the seven constituent republics of the U.S.S.R. and under these there were regulative bodies for the smaller territorial subdivisions. In February 1930 the Commissariat was reorganised "so as to conform as much as possible with that of the Supreme Economic Council."<sup>2</sup> This was done in order to increase the regulative grip of the Narkomtorg on trade and to integrate the general economic organisation of the country under a central planning scheme. "It is rather significant that this re-

<sup>1</sup>Hoover, op.cit., p. 123.

<sup>2</sup>Ibid.

organization followed upon the reorganization of industry and was contemporaneous with that of the banking system of the Union." <sup>1</sup> It was only too natural that the inauguration of Integral Planning should have been followed by organisational adjustments.

The most important task of the reconstructed Narkomtorg was to be the supervision of the food industry and the interchange of products between town and countryside. Public feeding was likewise placed within its purview. Besides, manifold technical tasks came within the Narkomprod's scope. The reconstructed Commissariat continued to supervise foreign trade operations. <sup>2</sup>

But things moved faster than all administrative enactments. New problems of distribution arose which the Narkomprod, even in its reorganised form was unable to tackle. The appearing shortage of goods forced the Commissariat to devote all its energies to the complicated tasks of food supply. This was not easy so long as the attention of the Narkomprod had to be divided between Home and Foreign Trade. The Government decided therefore to effect yet another step of reorganisation. It thought it advisable to revert to an organisational set-up similar to that which existed before 1925, i.e., to create two Commissariats charged with the direction of external and domestic trade respectively. This was accomplished only nine months after the first reorganisation decree, viz., on November 22, 1930. By virtue of the latter

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<sup>1</sup> Hoover, op.cit., p. 124.

<sup>2</sup> Ibid., p. 125.

decree the whole of internal trade was placed in the hands of the People's Commissariat of the U.S.S.R.; its name was reminiscent of that given to the supply centre during the period of War Communism.<sup>1</sup> Many Communists thought that this was indicative of a return to the "good, old times". Simultaneously, a special Commissariat for the control of Foreign Trade was created.

The tasks of the new Narkomsnab<sup>2</sup> were not essentially different from those of the reorganised Narkomtorg, but the distributive functions were strengthened, while market and price-regulation receded into the background. Briefly speaking, the Commissariat for Supplies had to organise the supply of agricultural products, to pass them over to the food industries for finishing and to supply the population, especially the urban working classes, with consumption goods. The commercial operations of the co-operatives were also in the hands of the new Commissariat.

### **Material and Technical Reconstruction of the Trade Network.**

The reconstruction and re-modelling of an entire trade machinery cannot be solved by organisational dispositions alone. It is obvious that a widening of turnover and of the network itself could only be achieved by the actual construction of new trading units, the building of warehouses, the erection of depôts, etc. The Soviet planners realised, of course, that the reconstruction of the obsolete commercial

<sup>1</sup>The Commissariat under War Communism was one of Food Supply; the new Commissariat was one of Supply.

<sup>2</sup>Abbreviation for Narodny Kommissariat Snabzhenia.



equipment itself, with the help of the most up-to-date methods of Western Capitalism (chiefly American), was necessary in order to effect economies in the sphere of exchange, e.g., to increase the velocity of commodity circulation and to cut down losses, waste, etc. These tasks were entrusted to the Narkomtorg and then to the Narkomsnab. But the pre-occupation with the unexpectedly excessive demands and appetites of industrialisation made it impossible to put aside sufficient funds for the purpose of reconstructing the material and technical base of Soviet commerce. Taken absolutely, the sums expended seem quite impressive,<sup>1</sup> but it is noteworthy that the actual expenditure fell far short of the planned allocations.

Nevertheless, noticeable progress was achieved during the First Five-Year Plan in this domain, but again it must not be forgotten that the material state of the Russian distributive apparatus with which the Soviet planners were confronted, was extremely poor. Therefore the results obtained meant an immense improvement as compared with the conditions prevailing before and during the NEP, but, measured by the standards and progress of distributive technique in a country like the U.S.A., they come to very little. This point can perhaps be illustrated with reference to the development of cold storage.<sup>2</sup> In pre-war Russia cold storage was extremely backward. In 1917 there were altogether 46 cold storage enterprises with a total holding-capacity of 63,300 tons. At the end of 1932 the two indices increased to 261 and to

<sup>1</sup>Economics of Soviet Trade, op.cit., p. 114  
<sup>2</sup>Ibid., p. 115.

226,000 tons respectively.<sup>1</sup>

But it was admitted that warehousing in general and cold storage in particular remained both backward and inadequate during the First Five-Year Plan. Not only (it was said) was their holding-capacity far too small and their technical equipment poor, but their geographical distribution did not correspond to the new distribution of productive forces and, hence, did not facilitate the movement of goods along the newly formed trade-routes. The socialist reorganisation of agriculture, particularly, demanded the erection of warehouses and places of cold storage near collective and State farms.<sup>2</sup>

Another aspect of material reconstruction of supply during the First Five-Year Plan should be mentioned, viz., the revolution in bread baking.

Bread baking in pre-war Russia was carried on in the most archaic forms and Gorky's descriptions of Czarist bakeries are unforgettable.<sup>3</sup> Their employees were exploited to the utmost and, because of that, often lost all traces of human dignity. Nodel is of the opinion that conditions under Czardom were even worse than those in London in the 'sixties (as described in a Royal Commission Report).

During the War external emergency and internal needs compelled the Czarist Government to set up a few semi-mechanised bakeries. At the time of the assumption of State power, the Bolsheviki inherited

<sup>1</sup>Ibid.

<sup>2</sup>Ibid.

<sup>3</sup>Cf. Nodel, op.cit., p. 147 and Webbs, Soviet Communism, p. 319.

only one fully mechanised bakery, hastily constructed in Petrograd during the War.

Mechanisation of bread baking was commenced in the course of the Restoration Period by the co-operatives. During the First Five-Year Plan the building of bread factories was greatly accelerated. By this means the Soviet planners hoped to achieve a substantial economy in the time required for producing this most vital of all foodstuffs and to ease the burden of the Russian housewives, many of whom were employed in the factories. At the end of the First Plan there were 330 mechanised bread baking units, including 11 automatic bakeries. This means that the number of mechanised bakeries was doubled during the period under review. The output of "mechanised bread" increased even more quickly than the number of mechanised bakeries. The "specific weight" of mechanised bread baking grew from 21 per cent. in 1929 to 68 per cent. in 1933, a percentage which is almost certainly higher than anywhere else in the world. The "specific weight" of automatic bakeries increased from 3.6 per cent. in 1924 to about 34 per cent. in the first years of the Second Five-Year Plan. But the success in this field was manifest mainly in the towns, and <sup>chiefly</sup> ~~foremost~~ in capital cities. Much remained to be done in the countryside.

The Bolsheviks realised that by the end of the First Plan, while a good deal had been achieved, the task of technical reconstruction of the distributive

/ Economics of Soviet Trade, op.cit., p. 116.

2 Webbs, op.cit., p. 318.

apparatus remained <sup>very</sup> ~~by far~~ incomplete. Therefore one of the most influential leaders of the Communist Party, the late Kuibyshev, re-emphasised at the Seventeenth Party Conference (which took place early in 1932), the great importance of the task of reconstructing the technical and material base of Soviet trade from the point of view of improving the services to the consumer. He exhorted his audience to continue with this task during the Second Five-Year Plan. /

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/Compare Economics of Soviet Trade, op.cit., p. 116.

## CHAPTER III

## MARKET PROBLEMS AND PRICE TRENDS



## MARKET PROBLEMS AND PRICE TRENDS

The material and formal changes <sup>in</sup> ~~of~~ Soviet trade under the First Five-Year Plan which we have surveyed do not by themselves reflect the causes for the goods-famine and rationing, which are the salient features of distribution during the period under consideration. For this purpose we have to analyse very carefully all those factors which were responsible for the scarcity of consumers' goods in those years.

The problem of market-equilibrium was not forgotten by those responsible for the drawing up of the First Plan.<sup>1</sup> Its solution was one of the most difficult theoretically and it appeared later that it was in this province that the Soviet planners had erred most seriously. The main technical aspect of the problem consisted in fixing such prices for commodities as would insure a balance between demand and the planned volume of consumers' goods. The obvious complications in bringing both sides to balance, even "on paper", were due to the heavy capital construction envisaged by the First Five-Year Plan, which, while diverting the labour force to the production of means of production, provided at the same time for a considerable increase in the total wage-receipts of the workers in the heavy industries. How were these difficulties "overcome" at the desks of the State Planning Commission? It was thought possible to achieve a balance between production and consumption by "skillfully 'fertilising' the labour of the people",<sup>2</sup>

<sup>1</sup>Brutzkus, *Economic Planning in Soviet Russia*, p.131.

<sup>2</sup>Ibid., p. 129.

i.e., raising the productivity of labour in a planned way and on an unprecedented scale.<sup>1</sup> "It ( was ) here, in the opinion of the Gosplan, that the miracle of planning (would) appear."<sup>2</sup> By means of this "miracle" it was hoped not only to finance the gigantic constructive task out of current income, but likewise so to increase the output of the light and food industries as to feed the workers engaged in the heavy industries and, in addition, even to raise the standard of life of the population as a whole. Minor corrections in the balance of demand and supply in the Soviet "market" were to be achieved by taxation of individual incomes, loans and the judicious utilisation of savings.

It is interesting to note that one of the ablest Soviet economists and statisticians, Professor Strumilin, expressed his grave doubts as to the possibility of raising the productivity of labour to the extent desired. In his book "Social Problems of the Five-Year Plan 1928/29-1932/33", published in 1929, he dealt with the particular difficulties which he anticipated would arise in connection with the maintenance of market-equilibrium under the First Five-Year Plan. He made the observation that, owing to the socio-political ideology of the new Russian State, there was a tendency to raise wages with the result that a gap between available purchasing power and the volume of consumers' goods would be created and a so-called "goods-famine" would arise in consequence.

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<sup>1</sup> Arnold, op.cit., p. 405.

<sup>2</sup> Ibid.

Furthermore, Strumilin admitted that the additional demand for everyday articles by workers employed in the constructive trades was by no means offset by an additional production of the commodities in question. Still, he advised very strongly against the easy solution of the matter, viz., the concentration on ~~the~~ light instead of on the heavy industries. Such a course would admittedly facilitate the striking of a balance between demand and supply in the short run, but would, in the long run, decrease the influence and strength of the Soviet system. Once the decision of the Authorities to build a powerful and independent heavy industry was accepted as sound both politically and in a wider sense economically, the appropriate solution of the market-problem under such conditions would (he said) necessitate the artificial restriction of demand down to the level of available supply of consumable goods. Therefore Strumilin recommended to hold wage increases in check and to affect such balancing measures ~~such~~ as the re-distribution of the national income, taxation and price-adjustments. Still, he thought it possible to increase the norms of consumption of the working class as a whole.

While the forecasts with regard to the possibilities of capital construction proved to be even some-

/ Similar reasons were given by Stalin in his report on the results of the First Five-Year Plan, <sup>which</sup> admitted that "fewer articles of general use have been produced than was required and that the Government could quite easily have rectified this. But what would have been the practical consequences of such a change in economic policy? "of course, out of the one and a half billion rubles in foreign currency that we spent on purchasing equipment for our heavy industry, we could have set apart a half for the purpose of importing raw cotton, hides, wool, rubber, etc. We would then have had more calico, boots and clothes. But then, we

what timid, those relating to demand were, to say the least, over-optimistic. The projected volume of final goods to be placed on the market at fixed prices was not attained, while wages which were intended roughly to equal the value of those final goods proceeded "according to plan".<sup>1</sup> Furthermore, the Plan envisaged, ~~for instance~~ <sup>for instance</sup>, the lowering of agricultural retail prices by 12-20 per cent.; wholesale industrial prices were planned to fall by some 20-23 per cent.,<sup>2</sup> while the reduction in the cost of production was to be about 35 per cent.<sup>3</sup> The gains thus obtained were to be applied to accumulation in industry.

In actual fact, however, the hopes of the Soviet planners for a unique surge of labour productivity as the main foundation of the drastic reduction in the cost of production, did not materialise. At the end of the first quinquennium, "in spite of every trick of accountancy, no amount of calculation could discover the looked for reduction (in the cost of production)".<sup>4</sup> Besides, the very impressive quantitative results of the Plan were by no means indicative of the accretion in use-value; the quality of products was poor. And, instead of the planned strengthening of the rouble's purchasing power, the printing press used to fill the gaps of the Finance Plan, caused by a costly industrialisation, while the spread of non-

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(continued from previous page): would not have had a tractor and an automobile industry, ...we would not have had metal for the production of machinery - and we would have been unarmed in the midst of a capitalist environment which is armed with modern technique." (From the First to the Second Five Year Plan, op.cit., pp.24-25).

<sup>1</sup>Paul Winterton, Soviet Economic Development since 1928, Economic Journal, Sept., 1933, p.450.

<sup>2</sup>Strumilin, op.cit., pp. 55-56.

<sup>3</sup>Brutzkus, op.cit., p.129. <sup>4</sup>Ibid, p.140. The rise in

cash settlements amounted to an acute credit inflation.

There is very little reliable information on price-trends during the First Five-Year Plan, for after January 1, 1931, the publication of price indices was discontinued. Arnold thinks that this measure was justified, for the indices "were not very meaningful, particularly so beginning with 1929, when prices of the socialized sector alone were being included in the index."<sup>2</sup> With this verdict we are inclined to agree, since rationing destroyed the category of a unified price. A long series of price-levels was set up as a direct consequence of normed distribution and supply. We shall attempt to analyse this complicated price-structure in conjunction with our discussion of rationing itself. Here we shall confine ourselves to the broad price movements during the period under review.

(continued from previous page): the cost of production is admitted by Neiman, op.cit., p. 170.

Minute details on the currency circulation under the First Five-Year Plan are to be found in Arnold's book, op.cit., pp. 404-449. "Inasmuch... as (the Plan's)... expectations did not materialise, and the various enterprises required more fuel, more raw materials, more workers, and so forth, than was anticipated by the Plan, additional credit and additional currency had to be issued." (p.405). It is quite clear, even from official information, that there was inflation in the U.S.S.R. during that period, if inflation is defined as a "condition that is caused by an increase in the volume of purchasing power that is not accompanied by a corresponding increase in the volume of goods and services available for distribution." (Ibid., p.429). There was a "wide disparity between the official index of circulation during these years and the index based on retail sales (as measured in rubles). ... It may be presumed... that between October 1, 1928, and January 1, 1933, the increase in currency amounted to from 193 to 246 percent; on the other hand, the increase in retail sales between 1927-28 and 1932 amounted to 141 percent." (Ibid., p. 428).

<sup>2</sup>Ibid., p. 423. Cf. also p. 432. Similarly Turetsky, Concerning the synthetic indices of the plan of the national economy at the present period, Planovoie Khoziastvo, 1935, NoY. 2, p. 152. -Continued on next page.-



From what has been said above about the expansion

(Continued from previous page): In those days index-numbers would have been of no avail, even if they were most carefully "weighted", since the size of the goods-funds, disposed of at the different price-levels, varied continuously. This underlines the futility of any attempt to calculate the "actual" purchasing power of the rouble under rationing. Many of the economic observers of the Soviet Union have tried to tackle this mysterious question. By attaching different "weights" to different price-indices they arrived at quite divergent conclusions. Incidentally, in spite of the cessation in the publication of regular and systematic price-indices, average price-indices for both town and country (expressed as a percentage of prices ruling in 1926) were released from time to time. These were quite unreliable and became patently misleading the more the operation of rationing was extended and the less the relative share of the countryside in the consumption of manufactured goods became: in the course of the averaging process considerable advances in prices for the relatively dear manufactured goods allotted to the countryside were more than offset by smallish reductions of urban retail-prices. In the first quarter of 1931 we find the indices of average prices charged by the consumers' co-operatives already divided into town and country prices, which, of course, reflected the wide disparity of the two price-levels. In the later phase of the First Five-Year Plan the scant official information on the price-situation confined itself to such qualitative statements as the observation that the increase in prices towards the end of the first quinquennium was due to the extension of the high-priced "commercial" funds and that only a quarter of the total price-advance affected rationed supply. (Cf. Neiman, op.cit., pp. 169-70). Information of this kind is certainly defective, but it must be realised that full price-information would have necessitated the enumeration of a long list of items (various shares of goods-funds, prices appertaining to each of them, incidence of price-changes on each of them, on individual commodity-groups etc.) which the State Planning Authorities probably withheld both for reasons of preserving simplicity of information and for political reasons of their own (e.g., unwillingness to disclose the magnitude of inflation). In any case the price-statistics of the period under review are not very illuminating.

From what has been said above about the expansion of currency during the critical stages of the First Five-Year Plan, it is obvious that under "normal" market-conditions prices should have risen by leaps and bounds. But the system of price-regulation kept them in check, although it could not altogether prevent their advance. According to Arnold the price indices failed to reflect the rise at all accurately. "For example, the official wholesale price index (1913=100) on October 1, 1928, 1929, and 1930, stood at 176.1, 181.7, and 186.5, respectively. ~~On January 1, 1931, it dropped further to 182.~~<sup>+</sup> There is certainly no reason to doubt, that this price index was a fairly accurate indication of the price-movements in "closed" shops, which distributed their goods at artificially low prices, but under conditions of commodity-famine even the privileged sections of the working class had to supplement their rations in the "free" market, which the Authorities had to tolerate. According to official Soviet information, quoted by Arnold,<sup>2</sup> the "free" market (volny rynok) furnished, in 1928/29, 33 to 36 per cent, and in 1929/30, 25 to 27 percent. of consumers' goods. The "specific weight" of purchases by workers in the volny rynok in 1931 varied in the different districts, in accordance with the conditions of ~~normed~~ distribution by the State, from 3 to 16 per cent. expressed in natura and sometimes reached as much as 50 per cent. of the total value of purchases.<sup>3</sup>

<sup>1</sup> Arnold, op.cit., p. 423.

<sup>2</sup> Ibid., p. 424.

<sup>3</sup> Turetsky, Planovoie Khoziastvo, 1936, vol.3, p. 130.

At the first glance these figures do not quite match with the official assertion that the influence of the private trader was completely liquidated in the course of the First Five-Year Plan. But it must not be forgotten that, first of all, the final elimination of legal private trade did not occur until fairly late in the Plan's execution. ( In 1930 the private sector still amounted to some 6 per cent. of the retail turnover, which, however, did not include bazaar trade). It ~~is~~ <sup>was</sup> not legal private trade, but the volný rynok to which the population had resort during the "lean years" of the first quinquennium and where prices, because of the superfluity of cash and the penury of consumers' goods, were excessively high. This tolerated market was extremely primitive. "Peasants stood on the street kerbs with baskets of fruit, eggs, etc., which they sold under constant threat of being "moved on" by the police, and even of having their stock-in-trade confiscated." The attitude of the police seemed to have depended on whether there was an adequate co-operative and State trade network in the districts in question. It should, therefore, not be deduced from the figures relating to the importance of the volný rynok in the satisfaction of everyday needs of the population, that this form of supplementary supply was evenly spread out all over the Union. "In 1930 the inhabitants of Moscow and Leningrad were able to procure practically the whole of their absolute necessities from the organised State and co-operative shops, while in Siberia

/Hubbard, op.cit., p. 141. An even more depressing description of the volný rynok is given by W.H. Chamberlin, *Russia's Iron Age*, London 1935, p. 109. Further interesting details: Otto Schiller, *Probleme des Kolchosenhandels*, Osteuropa, 1933, No. 8, pp. 273 et seq.

and other outlying regions the ordinary industrial proletariat had to buy 30 per cent or more of <sup>its</sup> ~~his~~ needs in the free market."<sup>1</sup> It was only on May 6, 1932, that the Government decided to reorganise this type of trade and turn it into properly supervised and regulated bazaars.

The price-level, obtaining in the volny rynok was, of course, not simply a "mechanical resultant" of the monetary inflation. Owing to the revival of speculation it stood much higher than the expansion of cash-circulation warranted. Conditions for speculative activity were ideal in those days. It was in the "free" market that the ousted Nepman took his refuge, it was here that the bagman reappeared. Scarce goods changed hands ~~for~~ innumerable times and attained fantastic prices. According to official data, collected by Arnold, "the price index of the "free" market rose in 1928-29 (as compared with 1927-28) by 26 percent, and in the first half of 1929-30, by another 32 percent. On the whole retail prices in the "private" sector exceeded those in the "socialized" sector by about 25 percent in 1927-28, by 50 per cent in 1928-29, and by more than 200 percent in 1929-30. But already by 1930 the prices of a number of commodities in the private sector exceeded those in the socialized sector from 12 to 15 times."<sup>2</sup> According to Turetsky<sup>3</sup>, the disparity between the price-level of private speculative trade and the prices of the co-operative sector

<sup>1</sup>Hubbard, op.cit., pp.141-42.

<sup>2</sup>Op.cit., p. 424.

<sup>3</sup>Planovoie Khoziastvo, 1936, NoX. 3, p. 130.

for some foodstuffs amounted to 1,500 per cent. at the end of 1932 ! "Commercial trade" carried on by the State (i.e. trade without rations at higher prices) began to be organised at the end of 1931, but it took some time until it could exert any influence on the speculative prices.

In the "closed" shops prices were kept artificially low for reasons which will be discussed later. But even in the sphere of "closed" commodity-distribution the price-fixing of the Government did not remain omnipotent. Although remaining unaltered for longish periods, "closed" prices used to rise by jerks from time to time. According to Malcolm Campbell,<sup>1</sup> there was a particularly sharp rise in the last days of January 1932, when foodstuffs went up by 25 to 75 per cent., cotton goods by 209 per cent., footwear by 40 to 45 per cent. and articles of clothing by 30 to 35 per cent; but he admits that owing to the almost complete absence of information on prices, he cannot corroborate his statement. It is relatively easy to find in the Soviet publications of that period references to price increases in "closed" shops. But they are invariably interpreted by the official commentators as deviations from the official regulations. From the reports of the Committee of Workers' and Peasants' Control it appears that the grip of price-regulation on the co-operatives was not so strong after all, for the "deviations" occurred very often. It is a fact that the "NEP-spirit" of the co-operatives to which we have already drawn attention in another context, fostered

<sup>1</sup>Soviet Economics, London 1933, pp.166-67. Cf. also Neiman, op.cit., p. 168.



speculative tendencies in the "closed" distributive centres. <sup>In addition</sup> ~~On the other hand~~ there was excessive bureaucratisation, lack of elasticity and absence of cost accounting which led to increased commercial on-cost and, in the last resort, to unauthorised increases of prices for rationed goods. But it is hardly proper to explain this price-raising tendency in "closed" shops merely by organisational shortcomings, however blatant they may have been. There can be no doubt that under conditions of a superfluity of cash and limited supplies of goods, it was extremely difficult to keep even "closed" prices in check. It was certainly not only the "NEP-spirit" or the speculative appetites of the co-operative shop personnel alone which compelled it to disregard the officially fixed prices. The economic forces were at least equally strong. If a manager of a "closed" shop obtained supplies insufficient to satisfy his anticipated rationed demand, what was he to do? Reduce the rations or raise prices? Some of the managers, no doubt good and honest people, thought that the latter solution was a better expedient for striking a temporary balance between demand and supply. But if they were to adopt this course they would be denounced as Nepmen. Their position was indeed not very enviable.

Information on the price-level obtaining in "commercial" shops is very sparse and all that can be said about it is that it was much higher than that ruling in the "closed" shops and lower than the prices in the "free" market. According to Pietro Sessa, Moscow Correspondent of the Tribuna and Stampa,

prices in the "commercial" shops and on the open market were at least three to four times higher than in the closed shops, in some cases ten times higher.<sup>1</sup> From information supplied by Hubbard,<sup>2</sup> it appears that in the case of food the difference between "closed" and "commercial" prices was much greater than in the case of clothing, but even within these two broad commodity-groups the ratio was by no means uniform. In the last quarter of 1931 a certain reduction of "commercial" prices took place.<sup>3</sup> It is of course impossible to arrive at any exact measurement of the "commercial" price-level on the basis of such defective official data. The only generalisation which can be hazarded with certitude about the price-movements during the First Five-Year Plan is that there was, because of the severe shortage of goods as well as because of monetary and credit inflation, a substantial rise in prices in those spheres of commodity-circulation which were not affected by rationing measures and that even the "closed" shops could not easily withstand the pressure of the purchasing power which was continually being piled up behind the rationing system.

<sup>1</sup>Soviet Economics, op.cit., p. 286

<sup>2</sup>Soviet Money and Finance, p. 332; Soviet Trade and Distribution, pp. 273-74.

<sup>3</sup>Turetsky, Planovoie Khoziastvo, 1936, vol. 6, p. 130.

#### CHAPTER IV

#### CHANGES IN THE STANDARD OF LIVING DURING THE FIRST FIVE-YEAR PLAN

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CHANGES IN THE STANDARD OF LIVING  
DURING THE FIRST FIVE-YEAR PLAN

Even our first and very superficial investigation into the Soviet price-system during the period under review reveals that prices do not provide any clue to the important question of the standard of life of the Soviet people in those years. Neither is the nominal level of wages (which had been rising continuously during the first quinquennium) a reliable indication of the population's real well-being.

There can be no doubt that, measured in absolute terms, the output of consumers' goods industries controlled by the State increased during the First Five-Year Plan. The statistical evidence in this respect is very convincing. In 1932, according to official figures, the commodities produced by the textile industries amounted to 143.7 per cent. of the 1928 output, leather footwear came to 259.3 per cent., rubber footwear to 209.4 per cent., kerosene to 204.5 per cent., canned goods to 459.6 per cent. At the same time, again according to official information, there was also a considerable increase in the commodity supplies of agricultural products in the hands of the socialised sector and an increase in the retail commodity circulation. How can we reconcile these official data with the eloquent descriptions, coming from hostile, friendly and "objective" sources alike, all of them testifying to the very severe shortage of consumers' goods under the First Five-Year Plan?

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Summary of the Fulfilment etc., op.cit., pp. 139 et seq., p. 206.  
But in 1929 "there still existed a very considerable number of small private and co-operative enterprises especially in the making-up trades. ... In view

and the government  
officially at work  
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First of all, there was an increase in population, i.e., in the number of mouths that had to be fed, from 154.2 million in 1928 to 165.7 million in 1932.<sup>1</sup>

The second and perhaps the most important factor in the situation was the change in agricultural production. Three main points have to be emphasised in this connection: (1) the wholesale (and apparently in most cases wilful) destruction of live stock.<sup>2</sup> (2) Partial harvest failures in 1931 and 1932,<sup>3</sup> partly owing to natural causes but certainly accentuated by organised opposition on the part of the peasants themselves, especially in the Ukraine.<sup>4</sup> (3) The growth of new crops. In order to make possible and to further industrialisation the Soviet Government did all in its power to foster the cultivation of industrial and "technical" crops (e.g., cotton, flax, sugar-beet, etc.) The area under these crops was increased by 6.26 million hectares or by 72.7 per cent. as compared with the technical crop area before the First Five-Year Plan period, while the area under grain increased only by 8.2 per cent.<sup>5</sup>

<sup>1</sup>Summary etc., op.cit., table on p. 269.

<sup>2</sup>In one year (1929-30) more than sixty million animals were slaughtered, being one-quarter of the whole; and in the course of the next three years (1931-33) over eighty million more. In 1933, the total live stock was less than four-ninths of the total in 1929. (Cf. Webbs, Soviet Communism, op.cit., p. 246.)

<sup>3</sup>Cf. statistics of grain production in the Soviet Handbook, London 1936, p. 174.

<sup>4</sup>Cf. Webbs, op.cit., p. 247 and p. 283. "The opposition of the Ukrainian population caused the failure of the grain-storing plan of 1931, and, still more so, that of 1932." (Ibid.)

<sup>5</sup>Summary etc., op.cit., pp. 159-60.

(continued from previous page): of the lack of statistical information regarding the contribution of small-scale and private enterprise to the total flow of consumers' goods, it is impossible to say whether the total supply of consumers' goods actually fell off during any period." (The End of Rationing and the Standard of Living in the U.S.S.R., p.7)



The third factor in the situation was the change in the structure of population. The building of factories, blast-furnaces, and electrical plant called for additional numbers of workpeople, the more so as the expectations as regards a spectacular rise in labour-productivity did not materialise. There was an exodus from the countryside to the towns and an absorption of the urban unemployed and the youth by the newly erected industries. According to official figures total agricultural population declined from 119.9 million in 1928 to 117.2 million in 1932, while non-agricultural population, in the same period, increased from 32.4 million to 47.4 million.

What were the effects of these transformations on the standard of living of the Soviet citizen during the First Five-Year Plan ?

The changes in agricultural production had, without any doubt whatsoever, the most adverse consequences on the food-situation of the country. The truly staggering slaughter of live stock was bound to create a serious shortage of meat and meat products. Crop failures and the artificial stimulation of technical crops must have been responsible for the inadequacy in the supply of grain. Official statements to the effect that there was a considerable increase in commodity supplies of agricultural products in the hands of the socialised sector are highly misleading, in so far as at a cursory glance they might suggest an improvement, on the whole, of the food-supply during the period under review. The mere fact that the quantity of foodstuffs in the hands of the

State increased in those years is a natural corollary of the changes in the distributive system, the elimination of legal private trade and the collectivisation of the countryside. But without additional information (which, so far as we are aware, is lacking) it certainly does not imply that the total supply of foodstuffs increased.

An unqualified answer to the question regarding the standard of living is made difficult by the following considerations: the system of rationing makes the attempt to calculate the changes in the average per capita consumption rather futile. Although it is probable that the quantity of foodstuffs in relation to the total population warrants the conclusion that the standard of living in this respect deteriorated in the period under review, it is equally probable that the preferential ~~ial~~ treatment of the working ~~class~~, particularly of those engaged in constructional tasks insured a tolerably satisfactory provision<sup>ing</sup>~~ment~~ of this decisive ~~class~~ of Soviet consumers.<sup>1</sup> If this is so, it is equally plain that the real sacrifice was borne by the remaining part of the inhabitants, particularly by the professional, <sup>and</sup> "non-productive", as well as by politically and socially hostile or unreliable groups. Many observers (notably W.H. Chamberlin) even go so far as to assert that there was a terrible famine in 1932-33 causing some four or five million deaths beyond normal mortality.<sup>2</sup> Whether

<sup>1</sup>Cf. Webbs, op.cit., p. 654.

<sup>2</sup>Quoted by Webbs, op.cit., p. 282.

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this statement is an accurate description of actual conditions - and the Webbs have reason to believe that it is not <sup>1</sup> - it seems likely that a good deal of the suffering of the peasantry was self-inflicted. <sup>2</sup> This introduces another complication. How far, it may be asked, was the shortage of foodstuffs during the First Five-Year Plan due to purely economic causes (i.e., the transfer of a substantial number of actual or potential producers of food to industrial construction, the decreed stimulation of technical crops etc.) and how far to socio-political factors (e.g., obstruction by the peasantry of the Government's collectivisation measures). Contributory causes can also be sought in the inefficiency of the distributive system and in ordinary harvest-failures. And is it not also correct to maintain that the increase in heavy constructional and building activity meant that the people concerned had to eat more in order (at least) to keep their efficiency? - in which case there was also a physiological reason for the relative shortage of foodstuffs. Furthermore it must not be forgotten that because of the planned opening-up and the productive development of outlying regions as well as the setting up of numerous constructional centres within the country, there was marked unevenness in distribution of the available stock of consumers' goods, with the result that there was comparative plenty in some parts of the country, and acute penury in others. Yet another consideration is that the degree of the shortage of foodstuffs under the First

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<sup>1</sup>Ibid., pp. 282-83.

<sup>2</sup>L. Fischer quoted by Webbs, op.cit., p. 283.

Five-Year Plan varied in different years. It was, e.g., more serious in 1932, when the~~the~~ political opposition of the peasantry reached its climax and the sowing campaign failed than, say, in 1930 where<sup>n</sup> there was a particularly and exceptionally good harvest.

The above reasoning is in part applicable also to the question of the supply of the population with consumers' goods other than food. Still, there are special causes for the shortage in manufactured goods of daily use, which was undoubtedly the common experience, in varying degrees, of the Soviet citizen in the course of executing the "Self-Denial Plan"! The population-shift from the countryside to the towns meant a decisive break with past traditions and habits. It is a well-known fact that <sup>the</sup> ~~a~~ family of an industrial worker spends more on clothing than<sup>n</sup> that of a peasant. This was particularly true of Russia where, prior to the beginning of industrialisation, the requirements of the peasantry in matters of clothing and footwear were most primitive. In summer the muzhik wore trousers and a shirt made of cheap fabric and went about bare-footed. In winter, all he needed in addition was, perhaps, a heavy overcoat (lined, maybe, with sheepskin), a cap and felt boots (or even plaited grass shoes). The demands of the urban workers, on the other hand, were always slightly more pretentious than this and it is therefore not surprising that the increase in the number of the proletariat caused a severe shortage in such things

as clothing and footwear, despite the absolute increase in the production of these articles.<sup>1</sup> And there was, of course, concurrently, a cultured advance all along which increased and altered the demands of the Soviet population as a whole. More will be said about this as well as about the importance of the increased supply of social and cultural services, amenities, amusements etc.<sup>2</sup>

In conclusion it may be summarised that the First Five-Year Plan implied very real sacrifices for the people. There was acute shortage of foodstuffs, still relative shortage of manufactured ~~of manufactured~~ goods and a dearth of consumers' goods which was unequally felt by various classes of the population and in different parts of the Union. Any attempt to calculate the changes in average per capita consumption is futile. Lastly, the whole basis of comparison of the standards of living underwent a radical transformation in the course of the First Five-Year Plan.

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<sup>1</sup>Webbs, op.cit., p.656.

<sup>2</sup>Comp. our discussion of the standard of living during the second quinquennium.



## CHAPTER V

SELECTIVE DISTRIBUTION UNDER  
THE FIRST FIVE-YEAR PLAN

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SELECTIVE DISTRIBUTION  
UNDER THE FIRST FIVE-YEAR PLAN

Beginnings of "Closed" Supply.

We have now reached a stage when we can review the history, the purpose and the consequences of rationing.

The original reason which compelled the Soviet Government to introduce rationing was the dearth of agricultural products, mainly of foodstuffs, which made itself felt in the years 1927-1929. We know that the productive capacity of the small-scale peasant husbandry lagged behind the requirements of industry. According to Hubbard<sup>1</sup> the position was aggravated by the campaign against the kulaks which was a frequent reason for the subdivision of the larger peasant farms.<sup>2</sup> This development soon led to a rise in prices for agricultural products<sup>3</sup> which was particularly pronounced in the private sector where the index (1913=100) jumped up from 207 in 1926/27 to 247 in 1927/28 and to 367 in 1928, the corresponding figures for industrial produce being 242, 242, 269.<sup>4</sup> As can be seen, it was this time an industrial scissors'-crisis that could be observed since 1927/28 in the retail-price-sphere. The officially fixed buying-prices paid by the State agencies to the peasants remained relatively low, however, although there were certain increases in the prices paid for grain and flax.<sup>5</sup> Amidst growing scarcity the volume of private purchases of grain grew during the years

o We call it  
"Scissors"

<sup>1</sup>Soviet Trade and Distribution, op.cit., p.25.

<sup>2</sup>Ibid. Comp. Hoover, op.cit., p. 83. <sup>3</sup>Hubbard, ibid.

<sup>4</sup>La Monnaie et le Système des Prix en U.R.S.S., op.cit., p.21.

<sup>5</sup>Hubbard, op.cit., p. 25.

1928 and 1929, despite the most stringent restrictions which were imposed upon them.

The advance in prices for foodstuffs was thus accentuated by private speculation and was particularly marked in private shops. But there is sufficient evidence to show that in the socialised sector prices advanced as well. As could be expected, the price-boom was particularly acute in the consuming regions and in the big towns and cities.

The launching of the First Five-Year Plan with its high rate of industrialisation introduced manifold complicated problems of distribution, which, in the opinion of the Soviet planners, could never have been solved satisfactorily by the free play of market forces. The greater number of workers employed in industry necessitated an increase in the allocation of wage-funds. Total money income of the working population rose by leaps and bounds while the supply of the vital foodstuffs declined. There arose the phenomenon of unused purchasing power. People had to be turned away from the shops, after a few fortunate buyers who happened to have come early had used up the very scant supplies. The co-operatives, naturally, tended to close their doors to non-members. This state of affairs~~z~~ soon resulted in gross social injustices, since only the relatively well-to-do were in a position to satisfy their requirements <sup>at</sup> in the dwindling number of private stalls etc. at very high prices, utterly out of reach for the average Soviet worker.

Under these circumstances the Authorities were

compelled to introduce, or rather re-introduce, a system of rationed supply. According to Molotov (speech made on November 25, 1934, published in the Pravda of November 30, 1934) special measures (viz., the introduction of food-cards etc.) had to be taken with a view to preventing industry from breaking down because of the inadequacy of agriculture, and to supplying the inhabitants of the towns and especially the major industrial centres as well as certain classes of workers with bread and other foodstuffs at prices fixed by the State.

It is important to realise that, in contradistinction to the rationing of the days of War Communism which functioned under the conditions of stagnating production and organisational chaos with the object of serving the needs of the war economy and of gratifying the crude equalitarian principle<sup>among the workers</sup>, rationing under the First Five-Year Plan had as one of its main objects the additional stimulation of an expanding production by means of granting social and geographical privileges under the conditions of a temporary shortage of foodstuffs and of certain manufactured consumers' goods. Besides, and again in contrast to rationing under War Communism, the new system of supply, although it weakened the importance of money, did not destroy the monetary system altogether. On the contrary, the Government tried, as hard as it could, to keep it intact so as to give some real meaning to wage-differentiation and to preserve the skeleton of economic calculation. Under the First Five-Year Plan all rations had to be paid <sup>for</sup> in money,

while under War Communism rations were distributed free of charge.

Entirely new features were introduced by the growth of production. From the point of view of supply and distribution the geographical distribution of productive resources under the First Five-Year Plan meant that preferential treatment had to be accorded to certain regions. "To distribute the State resources on the basis of equality would have been tantamount to refusing to supply the important new regions, to withholding privileges from the most important construction jobs. A change had to be made in the old system of planning; the rôle of the State in the distribution of goods had to be strengthened."

Another noteworthy principle of the new system of selective distribution was to link supply with production.<sup>2</sup> Under the conditions of goods-famine it was thought not only socially just but also politically expedient to give preferential treatment to those sections of the toiling masses who were deemed to be the most important in fulfilling the difficult tasks of the Plan and who had, it was claimed, to obtain compensation for the hardships and for the purely physical strain which the heavy constructional jobs called forth.

<sup>1</sup> Model, op.cit., pp. 55-56.

<sup>2</sup> During the period of War Communism there had been sporadic attempts (chiefly at Lenin's instigation) to link supply with productive results, but on the whole it can be said that in those days the decisive criterion of privileged supply was the socio-political status of the recipient. Under the First Five-Year Plan all this changed or, at least, was supposed to change, for the new system did not end with rationed distribution pure and simple but was supplemented by the so-called "closed" supply in the factories. (Cf. text below). Thus, a lazy worker, however revolutionary his past may have



Nodel summarises the principles of the new system of supply which was re-organised with the adoption of the First Five-Year Plan thus:

"There were three principles: (1) To single out particularly the main industrial regions, the new construction jobs and the most important factories, creating a number of privileges for them through the system of supply; (2) in the factories themselves to single out the skilled workers and to offer them better conditions as regards supply, compared with other workers; (3) to send large quantities of industrial goods destined for the village to those regions where the peasants had larger stocks to sell to the State and co-operative organisations, where they had more money earned honestly rather than by speculation." /

From Hubbard's account<sup>2</sup> it appears that the introduction of normed supply was not effected by virtue of a single Government enactment, but proceeded rather slowly, locally and piece-meal. To our mind this suggests a certain hesitancy and unwillingness on the part of the Authorities to adopt these measures and an indication that they had to be put into force by the pressure of circumstances.

In the course of its existence rationing seems to have undergone several modifications and according to Chamberlin<sup>3</sup> there was never any hard and fast proe

/Nodel, op.cit., pp. 56-57.

<sup>2</sup>Op.cit. (viz., Soviet Trade and Distribution), pp. 29 et seq.

<sup>3</sup>Russia's Iron Age, pp. 109 et seq.

(continued from previous page): been, was not entitled to a special ration. On the contrary, the factory management had the powers to penalise him by reducing his rations. (Cf. below).

hibition to purchase foodstuffs from other sources, and, in the measure that other forms of supply like "commercial" shops and bazaars developed, rationing became less stringent.<sup>1</sup>

The first commodity to be rationed was (as could be expected) bread, and the first measure of rationing this vital foodstuff was introduced (again naturally) in one of the bigger cities, viz., in Leningrad. Here the City Soviet adopted a resolution to this effect in November 1928, but apparently it took a long time until the requisite organisational preparations were completed, for ration~~ed~~ distribution of bread in Leningrad started only in March 1929.<sup>2</sup>

The resolution of the Moscow City Soviet to introduce rationing, passed on February 19, 1929, contained certain noteworthy provisions: bread was to be supplied to the working population against ration books, and at increased prices to non-workers; as regards other deficit goods the practice of preferential treatment of members of co-operative organisations was to be continued. (This implies that semi-rationing measures of this nature had been in operation before). In accordance with the above resolution the Moscow District Union of Consumers' Co-operatives established ration books for four categories of consumers.<sup>3</sup>

Ration~~ed~~ distribution of goods soon spread to

<sup>1</sup>This should not be confused with de-rationing, which will be discussed below.

<sup>2</sup>Hubbard, Soviet Trade and Distribution, p. 30.

<sup>3</sup>Ibid., p. 31 where further details may be found.

other big cities like Kharkov and Kiev and, before long, affected the whole country. After a while it was found necessary to extend the measures to other important foodstuffs, like sugar, tea, groats, vegetable oil, butter, herring, meat, potatoes, eggs, macaroni, preserves, pastry and sweets, and subsequently also to non-foodstuffs (textile and soap being the first articles of this category to be subjected to rationing in Moscow). Thus, towards the latter half of the First Five-Year Plan (1931) the system of rationed distribution was almost universal in the towns. As time went on, its organisation became more and more ambitious and the geographical and productive refinements of selective supply received increasing attention.

In essence rationing meant the distribution at

Hubbard, Soviet Trade and Distribution, op.cit., p.31. "The supply of industrial goods set aside for rural consumption was distributed by districts according to the results of the grain collections, preference in distribution to individuals being given to poor peasants, members of co-operative societies and peasants who were earliest to sell their grain to the State and co-operative collecting organs. In order to stimulate the cultivation of cotton, grain was supplied to the peasants of the cotton-growing regions of Central Asia in proportion to the amount of cotton they produced. Cereal foodstuffs were also supplied to peasants engaged in fishing, fur-trapping, timber-felling and so on in order to relieve them of the necessity of growing their own food supply. The distribution of foodstuffs to this class of consumer was not organised on a basis of individual ration cards as in the case of the industrial workers, but supplies were made available to the collective body or co-operative in proportion to the quantity of produce, goods, or services supplied or rendered to the Government by the peasants collectively. It is therefore impossible to say accurately how many persons received food from the Government at ration rates under this system; but it is estimated that, in all, some 25 million peasants and dependents may have been thus entitled to Government food rations." (Ibid., pp. 31-32). This system of distributing manufactured goods to the peasants at ration prices was called "Otovarivanie" (Cf. Hubbard, op.cit., p. 170 and p. 374).

fixed and particularly low prices of normed amounts of the principal foodstuffs and of certain manufactured articles to the wage-earning and salaried inhabitants of the towns, but also to certain other categories of urban consumers such as students, State pensioners, members of handicraft artels etc. Altogether there were four categories of recipients and the rations varied in each of the categories, the manual workers representing the most favoured class.<sup>1</sup>

The scope of rationing may be gleaned from figures supplied by Molotov:<sup>2</sup> in 1930 the number of the beneficiaries, including the dependents, amounted to 26 million and in 1934 (the last year of rationing) it rose to some 50 million, being approximately a third of the total population.<sup>3</sup>

The physical content of the ration was constantly changing, but the following table is illustrative of the approximate quantities:

FOOD RATION FOR THE MONTH OF APRIL 1930<sup>4</sup>

	Manual worker			Non-manual worker		
Bread	800	grams	per day	400	grams	per day
Meat	4,400	"	" month	2,200	"	" month
Sugar	1,500	"	" month	1,200	"	" month
Tea	25	"	"	25	"	"
Butter	300	"	"	300	"	"
Herring	1,200	"	"	800	"	"

On the whole, there was a considerable latitude in the actual carrying out of rationing by the various distributive centres. Sometimes it happened that there was a plentiful supply of vegetables and fruit

<sup>1</sup>in Moscow in 1930 the worker-class formed 34 per cent of the whole population, but it consumed the following percentages of the total amount of the commodities distributed under the ration system: Bread 47 per cent, Groats 56 per cent, Macaroni 56 per cent, Meat 47 per cent, Herrings 55 " " Butter 43 " " Vegetable oils 45 per cent." (Hubbard, op.cit., p.34).  
<sup>2</sup>Pravda, 25.11.34. <sup>3</sup>38 million at the height of War Communism. <sup>4</sup>Hoover, op.cit., p. 253.

which could then be obtained without any formalities. At other times informal rations were introduced.<sup>1</sup> In times of special stringency the rations were often curtailed. The Authorities tried to keep the bread ration constant, but even this had to be reduced in certain provincial centres when supplies ran short.<sup>2</sup> Members of co-operative societies enjoyed certain additional privileges, e.g., in the case of tea and butter. Milk was supplied to children only, and even this was most irregular.<sup>3</sup> "So far as foodstuffs were concerned the worker's ration-book was on the same principle with which the citizens of the belligerent countries became familiar during the war. But...the right to buy, say, a shirt or a pair of boots was normally a matter of obtaining a certificate or permit from some authority."<sup>4</sup>

As can be seen from the above statistics the rations were extremely scant<sup>5</sup> and it is therefore not surprising that they had to be supplemented in private shops, after their suppression on the "free" market and subsequently to an increasing degree also in "commercial" shops. Sometimes it is difficult to understand why the Government aimed at the complete extermination of legal private commerce just at a time, when the private dealer could, more than ever, perform a useful economic function and tide the Soviet citizen over a very hard time. Or were political considerations all-powerful ?

<sup>1</sup>Hoover, op.cit., p. 254.      <sup>2</sup>Chamberlin, op.cit., p.110.  
<sup>3</sup>Hoover, op.cit., p. 254.      <sup>4</sup>The End of Rationing and the Standard of Living in the Soviet Union, Monograph No.9 of the School of Slavonic Studies, London 1935, p.13.  
<sup>5</sup>Comparison with average food-consumption of British workers to be found ibid., pp.14-15.



Still, it would be a mistake to assume that rations alone exhausted the system of normed food-supply. The Authorities tried, with a not inconsiderable success, to make up the paucity of actual food rations by the development of public catering to whose numerical achievements under the First "Piatiletka" attention has already been drawn. The cheap meals which the population received were in addition to the food on their ration cards.<sup>1</sup> The factory canteens and dining halls were of a "closed" type, i.e., restricted to the employees of a particular factory and charging especially low prices, while open restaurants and refreshment rooms (charging higher prices) were accessible to the general public.

To a certain extent the system of public catering was without the framework of rationed and centralised supply. It is true that most of the food served by the communal feeding establishments was supplied by the State,<sup>2</sup> but the more communal feeding grew, the more difficult it became for the Authorities to allot sufficient stocks of foodstuffs for this purpose. It was chiefly in order to replenish the very limited supplies earmarked for public catering that the Government tried to induce the various Z.R.K. and O.R.S. to develop their own autonomous food bases.

Before discussing the details of this very interesting aspect of Soviet distribution under Integral Planning, it might be useful to analyse the

<sup>1</sup> Hoover, op.cit., p. 255; Hubbard, op.cit., p. 39.  
<sup>2</sup> Nodel, op.cit., p. 144.

considerations which prompted the Authorities to lay so much stress on the importance of autonomous and local food supply.

The Encouragement of Local  
Food Supply under Rationing .

It was clear to the Soviet Government that ultimately the solution of the scarcity-problem in foodstuffs could only be attained by the re-organisation and the increase of agricultural production, particularly that of grain and cattle-breeding, since the most palpable dearth could be experienced in bread, meat and such essential animal products like butter and milk. On the other hand, the leaders of the Soviet State realised that such a process (especially in reference to cattle-breeding) had by necessity to be of a rather protracted duration. Thus, while the Government embarked, with the utmost energy and ruthlessness, upon this long-term programme, it decided to encourage at the same time the setting up of a secondary or subsidiary food-base, which could be built up in a relatively short space of time. This food-base was intended to consist of such items as fowl, rabbits, poultry, eggs and all kinds of vegetables. The cultivation of this produce did not require much capital expenditure, mechanisation or technical skill; besides, its "turnover" was much more rapid than that of other agricultural produce.

At first people did not appreciate the importance of these plans and even went so far as to ridicule

them. This can be explained as a kind of psychological  
Furthermore it was suggested to commence with a small-scale breeding of horned cattle and pigs.

inhibition. In the course of the First Piatiletka the Soviet citizens had become so accustomed to think in gigantic terms that it appeared rather amusing to some of them to apply their energies to the collection of a few hundred eggs, to breed rabbits or to plant cabbages.<sup>1</sup>

The Authorities pleaded indefatigably for the vital importance of local supplies in the system of centralised distribution under the conditions of the inadequacy of the main food-base.<sup>2</sup>

Their efforts were not in vain. According to Nodel<sup>3</sup> the independent activities in obtaining supplies enabled the factory-kitchens and dining-rooms to increase their staple supplies by 15 to 25 per cent.

The organisation of local or autonomous supply was accomplished by means of purchases of food from collective farms within the scheme of decentralised collections and also through the development by the supply establishments of their own farms, vegetable gardens and the like.

First, the organisation of vegetable gardens was entrusted to the consumers' co-operatives. Later on this task was taken over by the O.R.S. and the Communal Feeding Department of the Narkomsnab, viz., the Glavnarpit.<sup>4</sup> But the extent of the latter's activities was rather insignificant (2 per cent of the total sown area of autonomous vegetable gardens), the remainder being pretty equally divided

<sup>1</sup>Bolotin, Questions of Supply, Moscow 1934, (R), p. 54.

<sup>2</sup>For Party Resolutions on this subject cf. Economics of Soviet Trade, op.cit., p. 262. <sup>3</sup>Op.cit., p. 144.

<sup>4</sup>Ibid., p. 264.

between the consumers' co-operatives and the O.R.S. /

The importance of local supplies can be gauged by the fact that the bulk of the demand of urban centres for vegetables and potatoes was satisfied in this way.<sup>2</sup> The sown area under vegetables and potatoes belonging to the co-operative farms was greater than that under the supervision of any other State organisation concerned with the cultivation of these crops.

At the beginning of the Second Five-Year Plan the number of milk-cows and pigs in possession of the co-operatives took the second place in the system of State farms, despite the fact that a considerable number of co-operative farms had, by that time, been transferred to the O.R.S.<sup>3</sup> In 1934 there were 2514 O.R.S. farms with a total area of nearly 6.5 million acres, owning about 250,000 cattle and about 370,000 pigs.<sup>4</sup>

It was Stalin who had demanded the creation round each industrial and urban settlement of a belt of food-supply. Of course, it had never been the intention of the Soviet Government to make these industrial centres <sup>entirely</sup> self-sufficient. Under the conditions of the First Five-Year Plan these bases became additional sources of supply. But even then

/ Economics of Soviet Trade, op.cit., pp. 264 et seq.

<sup>2</sup> These supplies were being distributed both through the dining halls and the shops of the O.R.S. and the Z.R.K.

<sup>3</sup> Economics of Soviet Trade, op.cit., p. 265. From these figures it should not be imagined, however, that yields per hectare and other qualitative indices of these local-supply-farms were high. The contrary is the case.

<sup>4</sup> Hubbard, Soviet Trade and Distribution, op.cit., p.39. For further details cf. Questions of Supply, Moscow 1934, (R).

it was stressed that they would remain permanent features of co-operative activity in the U.S.S.R. Later, when the food-situation became less acute, the Government continued to sponsor the development of local supply, which is generally useful for the consumption by the urban population of early or perishable vegetables, fruit and the like, and is doubly valuable in a country where the recovery in transportation has, so far, lagged behind the rhythm of the general economic advance. It is gratifying to note that the Soviet planners realised the limits of centralised planning and made a virtue of necessity.

#### Privileged Supply of Workers.

To return to our survey of rationing, we must now dwell more fully on the principle of the privileged supply of workers. Lenin's plan of linking up productive results with supply, which remained to all intents and purposes a dead letter under War Communism, came again to the forefront in the course of the First Five-Year Plan. Although many people entertained the belief that, after the liquidation of the NEP and of private speculation, Soviet Russia was proceeding along the road of equalitarianism in matters of remuneration and food, their illusions and hopes were dispelled by the Government. The first Piatiletka was to become a period when remuneration depended on the performance of the individual worker and of specific industrial units. We know already that the successful fulfilment of the First Five-Year Plan was based on the supposition that productivity of labour would go up



by leaps and bounds. The Soviet planners were, of course, not so naïve as to think that efficiency would increase on the strength only of socialist enthusiasm. It is true that "socialist competition" between several factories for the best results (which made its appearance in 1929) relied to a great extent on the altruistic motives of the workers concerned, but especially later when the expected phenomenal increases in the productivity of labour failed to materialise, the Soviet planners came to recognise the great practical value of payment by results.

The wage-policy of the First Five-Year Plan amounted to a complete renunciation of all tendencies of "uravnilovka" in the remuneration of labour.<sup>1</sup> Wages differed according to the various classes of workers (unskilled and skilled, lower grade and high-grade specialists, employees etc.) and within these broad groups there were several categories (as many as five in the case of skilled workers). At the same time it was sought to extend the system of piece-work to as many factories as possible.

Many foreign observers interpreted this change in Soviet wage-policy as an endorsement, pure and simple, of capitalist principles of remuneration. Apparently they had expected an increasing equality and communal sharing, but instead they had to register the emergence, within the working class, of fairly

<sup>1</sup>/Cf., e.g., *Wages-Policy in Soviet Russia* by S. Lawford Childs and A.A. Crottet, *Economic History*, January 1932, pp. 442-60.

This re-orientation was not easy and the "official line" of the Party had to fight very hard to secure its adoption. The strongest opponents of wage-differentiation belonged to the Left Opposition.

well-defined income-strata. It is true that the introduction of wage-differentiation meant the recognition of the value of monetary stimuli with regard to people who (it appeared) could not so easily jettison the powerful influence of the profit-motive and individual enrichment from their mental make-up.

Our interest in the wage-system of the first quinquennium is due to its interdependence with the Plan's machinery of selective supply. Under conditions of a goods-shortage the policy of expanding monetary payments had its obvious dangers. Prices would *have to* skyrocket, the purchasing power of the rouble would fall and the worker would find that what appeared to him a high nominal wage did not come to much in real terms. Furthermore, it is likely that under such conditions the better paid workers, salaried employees and officials would try to buy up, as quickly as possible, all available supplies, so that the lower paid toilers would have found it difficult to procure the necessities of life and might have revolted against such a state of affairs.

Therefore the system of differentiated scales of wages according to the quantity and quality of work performed had to be linked up with rationing and selective distribution.

Originally, there seems to have been a reluctance to introduce wide differences in money wages and to rely on selective distribution alone as a stimulus in production. But as time went on, a combination, a judicious mixing of both incentives was found to be more efficacious. By this means a certain

minimum standard of living was ensured to the un-  
 skilled worker (the more so as he, in particular, felt  
 the various wage-~~instructions~~<sup>deductions</sup> which were made to help  
 the financing of industry), while supplementary  
 privileges in supply <sup>to</sup> in the skilled grades accentuated  
 the monetary differences ~~whose~~<sup>the</sup> range ~~was~~<sup>of which, however, was probably</sup> much narrower  
 than in capitalist countries. Besides, rationing  
 assured that among the relatively well-to-do only  
 those benefited by way of sundry preferences, amenities  
 and superior service, who earned their money by what  
 the Soviet State considered to be honest work and by  
 work of a type deemed important for the country's  
 industrialisation. "Parasitic" elements, speculators  
 and even the professional and intellectual groups  
 were forced to avail themselves of the "free" market  
 and the "commercial" shops to a much greater degree  
 than the working class. Thus, by directing the flow  
 of supplies, rationing effected a certain re-distribution  
 of the national income so as, on the one hand to  
 mitigate the inequalities for the lower-paid sections  
 of the Soviet working class, and on the other hand to  
 make such monetary additions to the wage in the higher  
 income-groups of the proletariat as would transform  
 preferential supply into a direct incentive to labour-  
 productivity. The more the rouble depreciated in value ,  
 the less attractive became the monetary reward to  
 the skilled worker. Thus he judged his standard of  
 living not by whether or not he had "plenty of money",  
 but by the extent and forms of the various privileges  
 which he received in his factory in addition to his  
 normal ration.

What forms did these privileges etc. take in actual practice ?

Generally speaking, the closed factory co-operatives and then the O.R.S. received preferential treatment. According to Paul they had priority in the supply of rare commodities and, on the whole, of the best class of goods. The members were entitled to place orders in advance for certain manufactured articles which saved waiting. Payment was not by cash but by chit, the amount of the bill being deducted from the worker's pay-roll.

But there were also differences within the factory itself. As a rule the supplementary supplies of the O.R.S. and the Z.R.K. were primarily destined for distribution among the workers belonging to the leading departments and notably among the shock-brigaders, the "udarniki". These obtained additional supplies, premiums, superior meals (sometimes at reduced prices), better and quicker service. By this means it was hoped to raise the worker's "material interestedness" in his work, make him feel that the State was directly concerned about his welfare and

/"Rationing usually implies leveling. Since 1931, however, the Soviet policy has been to discourage very strongly any leveling tendencies in wage and salary payments, on the ground that productivity of labour depends on payment according to merit. So, when rationing destroyed to some extent the effectiveness of differential ~~wage~~ and salary scales, new forms of inequality were created in the form of the "closed store" and the "closed dining room". When I visited Magnitogorsk I found a whole hierarchy of dining rooms in operation. There were eating places of at least five different grades, with perhaps others of which I did not learn. The distinction between them was not one of price so much as of the class of diners who were qualified to eat in each one." (W.H. Chamberlin, Russia's Iron Age, p. 112; cf. also *ibid.*, p. 271). Details of different menus for ordinary workers and "udarniki" may be found in Bolotin, Questions of Supply, *op.cit.*, pp. 33 et seq.

thus (perhaps) slowly change his attitude towards labour by making him realise the ethical significance of work in a factory that was neither owned by private capitalists nor run for private profit.

The link between productivity of labour and supply was also achieved in a negative way. For, in case of breaches of labour-discipline the culprits were penalised by the forfeiture of their right to centralised supply, to the use of factory dining halls etc. The factory administration was invested with fairly wide powers of thus dealing with such offences. One of the most common offences of this type during the period under review was the so-called fluidity of labour, i.e., the tendency for workers to change from one job to another, thus upsetting productive activity in the factory which they decided to leave and losing / considerable time in finding and adapting themselves to their new occupations. It was extremely difficult to combat this sort of thing, because labour, especially skilled labour, was very scarce in those days. Among the Government's various methods to stop these breaches of discipline, differentiation of supply (which affected the worker's most sensitive part, his stomach) was likely to have been the most efficacious.

#### Weaknesses of Rationing.

In some sections of popular opinion Socialism is

It is, of course, not true to say that the excessive fluidity of labour was entirely due to the irresponsible attitude of the workers. Bad working conditions and the unevenness in supply in different regions were to a great extent responsible for the worker's carelessness and nonchalance.



associated with the restriction of choice for the consumer. One of the causes of what we think to be an erroneous view is a misunderstanding of early socialist literature.<sup>1</sup> Another, and perhaps more weighty reason, is the state of rationing in the U.S.S.R. during the First Piatiletka. After all, the Soviet Union claims to be the only country in the world which is building up socialism and the public mind, helped by misinformed or biased reports, often regards some of the transient features of the Soviet economy as essentials of any socialist régime.

Our discussion of the system of selective supply during the first quinquennium tried to bring out the reasons which prompted the Soviet planners to introduce that system. It is true that there were groups in the Communist Party (commonly described as the Left Opposition) which regarded rationing as a bridge across to direct communist distribution and it was by reference to these views that many of the foreign observers tried to corroborate their verdict that rationing of the Soviet type was a constituent part of Communist society.<sup>2</sup>

The truth with regard to rationing seems to be that it was (as we have seen from our brief historical outline) adopted with the greatest of un-

<sup>1</sup>The question as to whether a socialist economy is compatible with the freedom of the consumer is reserved for later discussion.

<sup>2</sup>The forces of the Left Opposition in Soviet Russia had at times been certainly very powerful (cf., e.g., p. 372) but since the defeat of Trotsky and the decision of the Party to continue with, and accelerate, the process of industrialisation they have never represented a strong political force. The official Stalinist group is partly to blame for the exaggeration of the importance of the Left Opposition. (Comp. our remarks on p. ).

willingness. Moreover, responsible Soviet economists admitted from the outset that they were far from ~~willing~~ ~~wanting~~ to retain rationing when the reasons that had prompted its adoption had disappeared. They emphasised again and again that the measure was only a temporary one.

Indeed it would be a gloomy reflection to imagine a socialist society afflicted with rationing, especially with Soviet rationing of the First and ~~of~~ part of the Second Five-Year Plan.

Every kind of rationing is a most cumbersome and costly procedure ~~for~~ distributing consumers' goods. Not only does its compulsory assortment destroy the freedom of the consumer to pick and choose, but it makes the procedure of satisfying one's needs exceedingly dreary. It necessitates the utmost centralisation of supply, which is not always easy to achieve because of the perishable nature of the commodities, and calls for an immense amount of administrative and clerical work. All these points could be amply illustrated by examples drawn from the experience of European war-economy. Rationing is a direct outcome of an actual or expected shortage of goods and it is only resorted to in case of utter need. As commonly understood, rationing is really a military measure and has nothing whatsoever to do with socialism, unless we admit that socialism could exist under conditions of a permanent shortage of goods, an admission which runs counter to the accepted definition of the concept.

However detailed and careful the plans are which

govern the execution of a rationing scheme, its main difficulties are perhaps to be ascribed to the human element. Rationing, by its very nature, puts a premium on red tape, inefficiency and excessive bureaucratisation. Elements of corruption are often present and become stronger the more acute the scarcity <sup>incl.</sup> ~~penury~~ of goods. Abuses <sup>as</sup> these occur even in countries where the standards of efficiency and honesty of public officials and sales-staffs are high.

From our knowledge of the past history of trade and distribution in Russia before and after the Revolution, and taking into consideration the relatively low <sup>level of</sup> efficiency prevailing in the U.S.S.R., it is not difficult to imagine that all these inherent weaknesses and abuses of rationing became most pronounced under the First Five-Year Plan.'

The Soviet planners did not deny that these undesirable phenomena existed; their publications dealing with the subject of trade and distribution of that period discuss them openly and in great detail.

Some of the weaknesses of rationed supply which made themselves felt almost as soon as the system was introduced can be said to have been structural, in the sense, that is, that they could not have been avoided under any circumstances. To begin with, there was a retardation in goods-circulation, its

/This despite the fact that Soviet rationing was in an important sense more favourably placed than war-time rationing of a capitalist State, since in the U.S.S.R. there were no private middlemen and rationing was not grafted on to private trade.

"freezing", as it was described, and a decrease in the "productivity" of the sales-staffs. In 1931 an examination <sup>of</sup> ~~into~~ the running of Leningrad bakeries revealed that the checking of the various chits, orders and ration-books took about the same time as the actual delivery of bread to the customer.<sup>1</sup> This meant that the productivity of labour had been reduced by half !

Rationing thus caused a considerable increase in distributive costs. Not only had the distributive centres to employ a permanent staff of officials attending only to the routine clerical side of rationing, but temporary staffs had to be engaged as well in times of the handing out of the monthly rations. Printing costs of co-operative and State establishments went up because of the many notices, ration-cards and entry-books which had to be prepared, so as to be able to register the requirements of scores of millions. Additional premises had to be obtained for purposes of housing the extra staffs.

From the point of view of the customers the introduction of normed distribution meant an enormous waste of time <sup>and</sup> energy and imposed a very heavy nervous strain indeed. As Chamberlin justly remarks, "as against the legal shortening of the working day, by comparison with pre-war conditions, one must set the dreary hours which are wasted in queues..."<sup>2</sup>

"Along with rationing, queues have come to play a large part in the life of the man, or still more of the woman, in the streets in Moscow. It would be

<sup>1</sup>Gorelik and Malkis, Soviet Trade, 1933, (R), p.89.  
<sup>2</sup>Russia's Iron Age, op.cit., p. 279. Ibid., p. 113.

difficult to think of anything for which queues have not been formed at ~~once~~<sup>one</sup> time or another..."'

All this resulted in a large-scale waste of ~~social~~ labour in the distributive sphere, accentuated by the extraordinary and typically Russian slowness of the sales-personnel. According to the Webbs,<sup>2</sup> the queues were not only due to the inadequacy of supplies, but to inadequacy in the number of shops, the length of selling counters and in the standing room for the customers. It is plain that if an inefficient and lazy personnel is called upon to carry out a most complicated system of rationing within primitive shops, the results are bound to be catastrophic. Moreover, rationing had seemingly the most demoralising effects on salesmen. Since ~~they~~ were assured of constant demand, which was likely to exceed the available supply, they tended to lose all interest in, and respect for, the wellbeing and the individual wishes of the consumers. The whole act of distribution became "depersonalised" and if the customer timidly complained, the salesman quoted the favourite motto of those days "Take it or leave it". Thus, while the Soviet rulers claimed to have abolished the exploitation of the working class, they had certainly intensified the exploitation of the consumer.

The weaknesses and abuses of rationing became particularly pronounced in the years 1930 and 1931. The Left Opposition then certainly attempted to make a virtue out of the necessity for rationing. Almost

<sup>1</sup> Ibid., p. 113.

<sup>2</sup> Op.cit., pp. 324-25.



all important goods destined for the supply of town and country came on the "reserved list". Stocks of goods earmarked as an exchange-equivalent for agricultural collections (by way of "Otovarivanie") lay idle in the rural warehouses so long as the obligations of specific agricultural suppliers (e.g., of wool) were not fulfilled, in spite of the fact that there was a shortage in manufactured goods to pay other agricultural suppliers (e.g., of wheat) who had promptly complied with their stipulated obligations.

A system of centralised distribution where all movements of goods are accounted for exclusively by specific orders, could work fairly simply and successfully (in theory, at least) on the supposition of strict fulfilment of planned deliveries at both ends. Under the then existing conditions there was, of course, nothing like dovetailing of the two sides of supply. Even under the most ideal conditions it is difficult to expect agriculture to conform exactly to planned expectations and, generally, it can be reasonably argued that, even under the most perfect circumstances, maladjustments <sup>in</sup> the mechanism of planning will by necessity occur. If this is so, the distributive machinery must possess a sufficient degree of elasticity and initiative <sup>in</sup> its component parts to meet possible cases of congestion.

The Communist Party of the Soviet Union recognised this necessity chiefly by empirical experimentation. It is, of course, easy to put the whole blame on to the shoulders of political opponents and "wreckers". But we suggest that the tendency towards over-

centralisation and "freezing" of the supply-mechanism was a general trend in those years. It was a consequence of a relatively abrupt re-orientation of policy and ~~of~~ the element of inertia inherent in the new development; it was also a result of the experimenting streak of the Bolsheviks. We do not deny that the political element (the difference, that is, between the views of the General Line and those of the Left Opposition) entered into the picture later on, when the dominating Stalinist group had recognised its mistakes and had sounded a rather hasty retreat, while the Left Opposition persisted in its attempts to base supply and distribution on orders and counter-orders. At the same time the Right Opposition voiced anew the demand for "free trade" and a relaxation of central price-planning. The Stalinist groups tried to steer a middle course, retaining rationing as an economic necessity, but at the same time trying to develop the elastic aptitudes of the Soviet distributive apparatus.

The effects of an ultra-centralisation of supply were not confined to the "freezing" of stocks alone. Generally speaking, rationing became an ideal breeding place for all sorts of abuses such as the dispatch of goods irrespective of the season or the specific demand-structure of the region in question. The abuses sometimes assumed a truly comic character, such as when lumber camps were supplied with children's footwear. Apparently the supply organisations

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/The natural concomitant of "freezing" of supplies in some directions was, of course, goods-deficit in others. Thus, instead of easing the general shortage of goods in the country by a system of just distribution, normed supply made the deficit of goods even more acute at times.

automatically followed a certain pattern of an average assortment for the "average" demands of an "abstract" human being and never considered the very special and exceptional requirements of a lumber camp. These truly ludicrous occurrences could never have happened in a system imbued with a greater measure of responsibility and with less automatism.

In those days demand was relegated to a most servile position in Soviet economy. There was no question of demand guiding production, <sup>even</sup> if only to some extent. At the same time the "levelling" tendencies ("uravnilovka") revived and the Authorities had the greatest difficulty in combating them. There was hardly any attempt at a realistic planning of consumption, of developing and shaping certain tastes, likes etc. The "planning" of consumption seemed to resolve itself into an arithmetical manipulation of norms and contingents which had been decreed by bureaucrats who were not familiar with the living consumer and unappreciative of the positive rôle which the interplay of supply and demand could play in stimulating production.

Owing to this attitude very little was done to replace the liquidated private trading units by additional co-operative shops. In 1930 the number of trading units had diminished by 181,299 as compared with the total number in 1928, the incidence of contraction falling most heavily on the towns!

/Cf. Malkis, Soviet Trade, op.cit., p. 92. The total in 1927-28 was 481,435. (Cf. U.S.S.R. Handbook, London, 1936, p. 240).

We know that the diminution in the number of trade units was partly made up <sup>for</sup> by an increase in their size, but on the whole (as was officially admitted), the services to the consumers deteriorated.

At the same time there was a certain retardation in the growth of the market-funds earmarked for distribution by co-operative and State trade. The reason for this was that the various productive Commissariats required large stocks of consumers' goods for direct distribution in their factories and also in schools, hospitals etc. In those days, for instance, the workers were invariably supplied with their working clothes by the factories.

Incidentally, the organisation of factory supply suffered from several abuses as well. People tried to derive advantages (to which they were not entitled) from the system of communal feeding. In practice, the principle "He who does not work neither shall he eat" was not always enforced, for many "loafers" and "drifters" managed to obtain preferential supplies. Similarly, relatives and acquaintances of influential Government officials fed on supplies which were supposed to be distributed to deserving workers only. When at the end of 1932 the organisation of workers' supply in the factories was tightened up and the O.R.S. established, it was discovered, for instance, that of the 2 million people, belonging to 74 enterprises of the heavy industries, who were catered for

/"Since prices in the closed shops are much lower than those in the open shops, there is a natural tendency among people who have no connection with the factory to try to attach themselves to the factory shop in order to secure products at low prices." (Nodel, op.cit., p. 88).

by centralised supplies before the organisation of the O.R.S., 273,000 were so-called "dead souls" and "parasites" who were maintained on false pretences.<sup>1</sup>

The Government and the Party certainly cannot be accused of having watched the obvious weaknesses and abuses of rationing with equanimity. Time and again various resolutions stigmatised existing deficiencies which were bound to arise from an excessive application of normed supply. But the Authorities had to proceed warily, trying to steer a middle course between "over-rationing" and "free trade". Here we detect again that touchstone-method with which Soviet economic policy operates, a method which consists in radical trial and radical error and a synthetic compromise dictated by political expediency and common sense.

The measures which were adopted to deal with the disadvantages of the system of rationing were essentially twofold: organisational - devised to put a stop to existing abuses; and economic - intended to widen the basis of supply and gradually to prepare the ground for de-rationing.

As regards organisation<sup>2</sup>/reforms, control commissions tried to eradicate from distribution the non-observance of official prices and the very considerable elements of corruption. At the same time attempts were being made to increase the number of retail units,<sup>2</sup> to reorganise the retail network in such a way as to bring it closer to the seats of production - the factories in the urban areas and the

<sup>1</sup> Economics of Soviet Trade, op.cit., p. 253.

<sup>2</sup> U.S.S.R. Handbook, op.cit., table 1 on p. 241.



farms in the countryside, and to economise the existing supplies of consumers' goods by accelerating the velocity of ~~its~~ <sup>their</sup> circulation and enrich~~ing~~ <sup>ing their</sup> ~~its~~ assortment (especially that of foodstuffs) within the range of possibilities. The concrete results of these efforts, however, left ample room for further improvement. The surmounting of the backwardness of Soviet trade is a slow historical process.

The inadequacy in the quality of service was noticeable not only in the "closed" shops, but also as regards the system of communal feeding. Workers complained about the carelessness in the preparation of food and the way in which it was served: the personnel was, as often as not, extremely insolent, the dining-halls were noisy and badly organised, so that the lunch-hour was by no means a period of quiet and relaxation, which is so essential to ~~the~~ <sup>the</sup> welfare and efficiency of the worker. Another drawback was the lack of attention paid to the feeding of children in schools and in special childrens' restaurants which points to the tendency, not surprising in a system of selective rationing, to put the supply of certain sections of the population before the consideration of its general vital interests and well-being.

The economic measures to mitigate the hardships caused by the shortage of goods were based on the belief that, although the paucity of consumables in relation to the soaring demands of the population was unavoidable under the First Five-Year Plan, the output of consumers' goods could be increased by methods of enhancing the utilisation of the existing

resources. In addition to the development of local supplies (which we have described), the Government concentrated its attention on the building up of Kolkhoz and bazaar trade and the augmentation of decentralised collections and the centralised collection by the co-operatives, the expansion of handicraft co-operatives in local centres of raw-materials, the fostering of small-scale fishery and the production of consumers' goods out of waste of the heavy industries.

Efforts were also being pursued in the direction of diminishing intra-industrial consumption by means of rationalising production and cutting down unreasonable and excessive demands, especially as regards working clothes and footwear. In the course of 1932 regulative organs succeeded in bringing about a slight reduction of intra-industrial consumption and an increase in the so-called "market-funds".

Lastly, the Government began to take steps to narrow, as much as possible, the number of commodities and commodity-groups under rationing. The Appeal of the Central Committee of the C.P.S.U., the Sovnarkom and the Centrosouys of May 12, 1931 stopped the tendency to widen the range of rationed goods and after that date the number of such goods began to diminish, though it remained high enough in the course of the second half of 1931. In April 1932 Party and Government published a decree according to which the number of rationed foodstuffs was reduced from 13 to 6, viz., bread, groats, sugar, meat, herring, animal and vegetable /Cf. below.

fats. This number remained unaltered until January 1935.

CONTINUED IN VOLUME II.